FARMERS HOME ADMINISTRATION
(RURAL HOUSING PROGRAM OPERATIONS)
(PART 2)

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

JULY 31; AND AUGUST 1, 1974

Printed for the use of the Committee on Government Operations

U.S. GOVERNMENT PRINTING OFFICE
47-194 WASHINGTON : 1974

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FARMERS HOME ADMINISTRATION (RURAL HOUSING PROGRAM OPERATIONS)

(Part 2)

WEDNESDAY, JULY 31, 1974

House of Representatives,
Intergovernmental Relations Subcommittee
of the Committee on Government Operations,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Clarence J. Brown of Ohio, Benjamin S. Rosenthal, Don Fuqua, and Bill Alexander.

Also present: James R. Naughton, counsel; and Richard L. Thompson, minority professional staff, Committee on Government Operations.

Mr. Fountain. The subcommittee will come to order.

Under the rules of the House of Representatives, the Committee on Government Operations has responsibility for examining Government operations at all levels with respect to economy and efficiency. This responsibility, insofar as it relates to the Department of Agriculture and certain other departments and agencies, has been assigned to the Intergovernmental Relations Subcommittee.

In accordance with this assignment, the subcommittee is examining operations of the Farmers Home Administration relating to housing.

As most of those in the room are aware, the subcommittee held hearings and prepared a report on rural housing program operations last year. During this series of hearings, we expect to take further testimony concerning a number of subject areas discussed in our previous hearings and report. We are particularly interested in exploring the adequacy of present arrangements for keeping the national office informed of problems at the local level.

Mr. Elliott, we are delighted to have you back with us, and if you will be kind enough to introduce your associates here this morning, we would appreciate it.

STATEMENT OF FRANK B. ELLIOTT, ADMINISTRATOR, FARMERS HOME ADMINISTRATION; ACCOMPANIED BY JOSEPH R. HANSON, DEPUTY ADMINISTRATOR, PROGRAM OPERATIONS, FARMERS HOME ADMINISTRATION; L. D. ELWELL, ASSISTANT ADMINISTRATOR FOR RURAL HOUSING, FARMERS HOME ADMINISTRATION; JOSEPH FREBURGER, DIRECTOR, FISCAL DIVISION, FARMERS HOME ADMINISTRATION; LUIS GUINOT, DIRECTOR OF COMMUNITY DEVELOPMENT DIVISION, OFFICE OF GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE; AND JAMES J. SCOTT, SUPERVISORY AUDITOR, FOREIGN PROGRAMS AND RURAL DEVELOPMENT DIVISION, OFFICE OF AUDIT, U.S. DEPARTMENT OF AGRICULTURE

Mr. ELLIOTT. Mr. Joseph Hanson on my left is in charge of all of our program activities; Mr. L. D. Elwell is Administrator of the housing programs; on my right is our General Counsel, Mr. Luis Guinot; and I am Administrator of Farmers Home Administration.

I have several other witnesses. Your counsel has posed several technical questions so, rather than introduce them at this time, I would like to have them introduce themselves as we call upon them, depending on whatever questions you have.

Mr. FOUNTAIN. Thank you very much. Before proceeding with some planned questions which I have, Mr. Brown has to go to another committee meeting and I think he has some questions which he wants to ask. I am going to yield to him at this time.

Mr. BROWN. Thank you. I do appreciate it, Mr. Chairman.

Mr. Elliott, I have a trailer that I take around my district to the smaller communities where I listen to people's problems with reference to their concerns about their association with the Government. Just last week I met two very attractive young couples in a small community of my district. One couple was made up of two teachers from the local school system. The husband of the other couple was a member of the National Guard. His wife was a secretary.

These young people had committed themselves to purchase a Farmers Home Administration loan. The builder of a small development of 14 homes had gone bankrupt when he had only five homes completed. The two occupied homes had fundamental problems. These were not design problems but just——

Mr. ELLIOTT. Construction problems?

Mr. BROWN [continuing]. Yes; problems of incomplete construction, drainage from the area beneath the first floor level—and there were no basements in either house. In one case I think drainage away from the house so that there was standing water outside the house even in dry weather. Then the rest of the subdivision was unfinished and no yardwork or landscaping completed. As a matter of fact, even the truck with which the contractor had worked and some of the appliances to be installed were left in the trucks. The whole place was in a general state of disarray.

My question is twofold. I want to have these young people protected in their investments.

I am also concerned about the bad inspection and the bad procedures which allow a situation like this to occur.

I am asking on behalf of these four constituents, what remedy is there? I gather that this firm was not bonded in any way or the Farmers Home Administration would be requiring the execution of that bond or the picking up of that bond to in some way provide for the execution of either the completion of either the tract or at least the homes that have been built before the builder went bankrupt.

The second question is—well, I guess the first choice is to complete the tract, or at least complete their homes and finish the tract off in such a way that it can be desirable to live there, because they are necessarily emotionally tied to the first homes that these two couples had bought. The third choice is not how can these young people be made whole in their relationship regarding their investment in these new homes, but what does that do to the general taxpayer in my district who apparently must pick up the tab on this bad investment?

And finally, Mr. Elliott, procedurally, how can you organize in such a way to avoid this?

They were very patient and very understanding and said that they thought that the Farmers Home Administration inspector who looked at this tract was obviously overworked and obviously had more to do than he could get done and they were sympathetic to him but they still wanted to know from me what might be done. That is my problem, Mr. Elliott.

Mr. ELLIOTT. Well, sir, first I have to find out the facts. Second, we will send somebody out, and third, if we have placed any borrowers in a position that is to their detriment, our policy is to make them whole by getting them into a house that is decently constructed and fits their need.

Mr. BROWN. I left out one rather significant factor. There is no other housing available to them except this property. They are living at a level where a home 15 or 20 miles away isn't going to quite work out for them because of the transportation problems and so forth.

Mr. ELLIOTT. To answer it the second way, we will have somebody there to see if we can get a contractor to finish the work to the satisfaction of the borrower. We do this when a contractor goes into bankruptcy or whatever other circumstances that occur.

Mr. BROWN. Is he bonded? Is this contractor in normal practice bonded and, if not, why not?

Mr. ELWELL. For contracts over $60,000 the contractor would need to provide a surety bond. And in a case like you pointed out where a bond has not been provided, Mr. Brown, we would hope or expect that moneys would be left in the account to complete the house. Without a bond the contractor can be paid only 60 percent of the cost of materials and labor, so hopefully there is money in this account that will enable Farmers Home and this borrower to proceed to finish the house.

Mr. BROWN. Well you say on a contract over $60,000. As I said, this was a several home tract and I think from $14,000. I assume that runs over $60,000. You are certainly not referring to $60,000 for each property?

Mr. ELWELL. Yes, sir.

Mr. BROWN. Oh, you are?

Mr. ELWELL. The contract is with the individual family. The contract is between the family and the contractor and the bond is for the amount of their loan.

Mr. BROWN. Well, now, how often do you get involved with $60,000 houses?

Mr. ELWELL. Very seldom in single detached housing. In multiple type housing, rental housing——

Mr. BROWN. This is detached housing.

Mr. ELWELL. Yes.

Mr. BROWN. I find that extraordinary because I am not sure what then the Farmers Home obligation is with reference to that. Now what about the completion of the contract with reference to a builder then who has gone bankrupt, that is, what recovery from the builder do you have? What undertakings do you have to assure that the contractor hasn't bitten off more than he can chew and isn't a prime candidate for bankruptcy when he undertakes this kind of development?

Mr. ELWELL. At the start, the contractor is checked out. Hopefully we do not have someone who is going to go bankrupt. Without a bond we pay 60 percent of the value of the materials and labor in place. Hopefully, then, we are holding back from the contractor sufficient moneys that in the event there is a problem, the borrower and Farmers Home can proceed to correct the problems and finish the house.

Mr. BROWN. What about the rest of the tract though where you started other houses, and so forth?

Mr. ELWELL. Could I ask this, Mr. Brown? Have there been loans made on these houses by Farmers Home?

Mr. BROWN. I am not sure. I will find that out.

Mr. ELWELL. If there have been loans made, we will proceed in the same manner as with the family that you are pointing out. If there have been no loans made, then Farmers Home would not have an obligation to the contractor. Possibly he has proceeded with private lending to start these homes.

Mr. BROWN. Now just one final question, if I may. The problem is not only the individual houses.

Mr. ELWELL. Sure.

Mr. BROWN. And again I find $60,000, at least for rural homes in my area, to be an extraordinary amount. I would think it should be certainly no higher than $20,000. The problem is not just the two homes that have been moved into which need to be finished. It is estimated on those two homes that $4,000 worth of work remains to be done. In other words, around 20 percent of the work that has either been done improperly or inadequately or has not been done at all. The other problem is cleaning up the rest of the site where work needs to be finished on the other homes.

Mr. ELWELL. Let me comment on the rest of the subdivision. If these homes are not financed by Farmers Home, I would hope that our field people in working with the community could find a builder who would be willing to come in and take over these houses and proceed to finish them. Possibly the families who would want to buy these could obtain Farmers Home loans and finish the houses. So, in some way, we could help to finish the houses that are started.

I think it would be a difficult problem particularly if Farmers Home is not involved in the financing of the 10 homes.

But we certainly have the authority if a builder can be found who would come in and take over the houses. We would be willing and able to make loans to families to buy these houses and complete them.

Mr. BROWN. Well I won't take any more time, Mr. Chairman, at this juncture for this particular problem. I will take them up directly with the Farmers Home Administration. This is not the only problem of this nature that we have. We have another problem where the homes have been completed but where the subdivision has inadequate sewer and water arrangements for the housing that was built.

I would only comment in conclusion of my inquiries at this point that it seems to me that bonding is a relatively inexpensive method by which you could assure that a small contractor who may look at the Farmers Home Administration or even other Federal programs—and I realize they are not under your jurisdiction—but he may look upon them as a bonanza and then discover that he is not equipped for this sophistication of bookkeeping and cash flow problems and all of the other things that evolve from building more than a single house on an individual site.

I think bonding is a method by which you can assure that such operators don't fall into trouble and the Government wind up with the necessity of picking up the load on the repair job. And when I say the "Government," of course I refer to the other taxpayers in the country.

Mr. ALEXANDER. Would the gentleman yield?

Mr. BROWN. Be glad to yield.

Mr. ALEXANDER. Mr. Chairman, I asked the gentleman to yield only to make a statement which I think is important to add some balance to the position of the gentleman. As the gentleman knows, I have been very much concerned about the administration of the Farmers Home Administration since I came to Congress 6 years ago. I can say, quite unequivocally, that the difficulties, in general, that I have observed in the surfacing of poor quality of house construction and home construction have come more from large, well-financed and well-capitalized home construction entrepreneurs than from the small family oriented type of construction firm that also participates in home housing construction.

I think that given the opportunity, I may be able to bear out this position by evidence, if the gentleman should request it.

Mr. BROWN. Well I would say to the gentleman that I think perhaps the problem exists at both ends. I think the big operator who takes advantage of a Federal program, and the corner cutter who is also taking advantage of the individual family that may be unsophisticated in this purchase because it is the only one they have ever made—well, I think that it is clear most often the case is that the problem is at the large end of the scale. But still at the small end of the scale there is this individual entrepreneur, who may have been a pretty good carpenter and put together a couple of contractors who are pretty good housebuilders on individual lots.

When it comes to his effort to expand from the individual businessman into a business that involves a tract of 5 or 10 or 15 houses—and particularly in a market as kinetic as this market is now, in terms of financing and the cost of materials—he may need a little bit more sophistication to finish the job. The Farmers Home Administration has to be well protected in that circumstance unless you are going to sort of be an overseer of the project in direct terms or an overseer of his financial practices in terms of advice as to how he runs his business in detail, Mr. Elliott.

Unless you are going to do that, then I think you need a program for bonding, so that when the contractor, even though he may look good in his individual housebuilding career, decides that he is going to branch out a little and then goes over the edge financially, it doesn't end up with the taxpayer or the individual home purchaser losing out.

It seems to me that this procedure would be good management practice from the standpoint of the Government making funds available to people who I don't think otherwise can be pretty well tested as to their ability.

I might say to the gentleman that I am familiar with, and the small communities in my district show this, contractors who made this transition from an individual carpenter and builder into a fairly sophisticated operation; some have gone from modest operations into large operations and done very well at it. I do think you have to have a proper end of scale. And I would like to see some thought given to the bonding issue.

Mr. Elliott. Could we address ourselves to the bonding procedure and clarify it for you right now? We have had criticism because we were requiring bonding. This is not particularly a happy thing, so we set $60,000 as an acceptable level. I will let Mr. Hanson give you the technical way that we bond and why——

Mr. Brown. And speak to the costs of the performance bonded with reference to the project.

Mr. Hanson. I am not sure I can speak to the cost specifically. It is not really cost.

Mr. Brown. Could you give me a percentage area here? It really is not going to add significantly to the cost of the home, is it?

Mr. Elwell. I believe, Mr. Brown, one of our problems has been that contractors are unable to get a bond, and our complaints from the field have been that small contractors operating in rural towns—not the large contractor, but the small one—is unable to obtain a bond regardless of the cost. This places a particular problem on Farmers Home to deal with the builder that is in this position.

We have the responsibility of, No. 1, checking the builder out at the start, not only for his reliability as to what he can do, but as to his financial ability; and second, making the inspections as we go through the project. The contractor is paid only 60 percent of the value, and 40 percent is withheld. With these two methods and by obtaining lien waivers, we can proceed without a bond with assurance that the builder will be able to complete the house.

Mr. Brown. I think the fact that he can't get a bond tells you something or should tell you something, and you might address yourself to it and to the bonding procedures. I also think the cost of bonding and the difficulty of getting a bond is not that great. I don't want to eliminate these small contractors by any way or means, but I sure as heck don't want them to eliminate themselves either.

Mr. Alexander. Mr. Chairman, would the gentleman yield? Is the gentleman from Ohio familiar with a rural area and the construction of homes in a rural area?

Mr. BROWN. Sure.

Mr. ALEXANDER. Now, I am likewise disposed. I have a lot of rural areas, particularly in the Ozarks, where people build things every day—people who never heard of a performance bond and who couldn't get one if they had heard of one because it is 200 miles to Little Rock. The closest insurance company that would provide a performance bond is far away from the sites of the construction of housing and of Farmers Home type of programs.

I submit just for the record, and in order that the Administrator might know, that there is at least a small difference of opinion here, that performance bond methods in this particular situation would be costly and unavailable and counterproductive to the administration of this program.

And I further submit that the escrow account method of insuring performance is totally satisfactory and much more economical to the administration of this type of program.

Mr. BROWN. Well, there is a difference apparently between the gentleman's area and mine because performance bonds are not that difficult to get, and it is a matter of 1 hour to two cities of 300,000 from this little community of 800.

Mr. ALEXANDER. We don't have one city of 300,000 in the whole State of Arkansas.

Mr. BROWN. Well, perhaps the availability then of performance bonds ought to be given consideration in the application of your program. But it seem to me that on the evidence, at least of this particular example in our area, that there has been a very slow response on the part of Farmers Home Administration to the problems presented. I am not sure that we have a system here that is working as well as it should. The performance bond system is used, as I understand it, in Federal housing, generally. Is it not?

Mr. ELLIOTT. Well, we would like——

Mr. BROWN. The Federal Housing Administration programs use it; correct?

Mr. ELLIOTT. We would like to explain our procedure for you so you are aware that we have had this problem and addressed this problem.

The $60,000 limit was set so as not to exclude those who neither have access nor capital to be bonded.

Mr. Hanson?

Mr. HANSON. Well, I want to clarify first, Congressman, that we do not make loans for individual houses up to $60,000. Most of our loans, as you indicated, would be $20,000 or less and, in some cases, a few thousand more.

We also, of course, make loans for multiple-family housing which may, under the law, go as high as $750,000. So this is where the bonding procedure comes into effect.

As Mr. Elliott has indicated, yes, the bonding problem has surfaced a number of times through the last several years. It has been considered, and both sides have been looked at. We, too, have believed, as Congressman Alexander indicated, that the escrow method of holding back funds has worked quite well generally. Admittedly, the problem you have surfaced is one that hasn't worked, and we intend to look into it and do something about it.

Mr. ELWELL. Could I make one additional comment, Mr. Brown?

A county supervisor at the time he is approving the contractor does this financial check. Now he has to make a decision. The bond is not automatically waived. The county supervisor is charged with the responsibility. If he finds financial conditions that would warrant his requiring the contractor to get a bond, he will require the contractor to get a bond, regardless of the amount of the loan.

So if we knew that a contractor had financial problems, we do have in our instructions the requirement that he get a bond.

Mr. ELLIOTT. Mr. Congressman?

Mr. BROWN. Go ahead.

Mr. ELLIOTT. In order that we can get on, as I testified before the Appropriations Committee, the Farmers Home Administration's delivery system is one of the most effective closed audit systems I have ever seen.

I pointed out to the chairman of the Appropriations Subcommittee that we have a closed loop audit. When there is something we do wrong in the performance of service or integrity of service in the Farmers Home Administration, the community is extremely quick to advise either their appropriate Senator or Congressman, and I hear about it very quickly.

The point I would like to make about this closed loop audit is that it is effective in assuring the delivery of our services. While we do make plenty of mistakes, if you, at any time, or any Member of Congress find any performance failure on our part, let us know immediately because we have mechanisms for correcting them.

If you could tell me just the town so——

Mr. BROWN. I will provide all of this information to you. I might just say in conclusion, Mr. Chairman, that I still have some reservations about the preference for the escrow account as opposed to a bond arrangement for two reasons.

Primarily, it seems to me that the escrow arrangement would affect the cash flow of a very small contractor. It would make life much more difficult for him because 40 percent of the money is held back. Unless he has a pretty good line of credit from somebody, then going on to the next house or next project becomes very difficult for him.

With a 40-percent holdback in my newspaper business it would be a difficult problem for our business and we are not small contractors building houses. So, I worry particularly at this time about that cash flow problem.

And, the second thing is that some of the errors, particularly in drainage, and in the collapse of roadways and so forth, and the failure of shrubs to root and the house to be well landscaped, it seems to me do not show up within the time frame of the normal building escrow arrangements.

I have done some building, not as a contractor but as a purchaser, and it has been within the realm of my experience when the problem didn't develop until the time lag, and the escrow funds were terminated.

I think that some kind of bonding arrangement might be less harmful to the small builder and, quite frankly, I think the FmHA must bear some of that concern because it has been my exprience while the

FmHA's heart is in the right place, its feet are sometimes slow to get to the place where the problem has to be resolved.

If we can get you there, we can usually get your concern but it frequently happens, at least in my experience, that it is not that you won't do it right when you get there but that you don't get there until a long time after the family feels that they should have more adequate attention when they go through normal channels.

Thank you, Mr. Chairman.

Mr. FOUNTAIN. Thank you, Mr. Brown.

I think you have brought up some problems we need to consider.

I would like to say this. I happen to come from a rural area so I can appreciate the point of view expressed both by you and by Mr. Alexander. I quite agree that this program would be handicapped tremendously if they required bonds in all situations. I think the escrow arrangement is a good one.

I have had complaints in my own area about the way the escrow is handled. Sometimes it is held up too long and the contractor gets fidgety and is fearful he can't get the job done and they start having a controversy between the owner of the building and the contractor.

Then the inspection sometimes is rather rapid and defects start turning up after the building has been approved and the owner tries to get something done and of course the contractor without a bond is sometimes a little slow to come back and maybe he just doesn't have the funds to go back and do some of the things that ought to be done.

So there are sometimes defects like having the house leaking or having cracks in it—a house that has been inspected—and in many cases the problem is not being able to get the builder back.

I think where we can get bonds we ought to require them but I still think there are a lot of good builders upon whose integrity we can rely. As a matter of fact, I built my own home which I now realize I shouldn't have built because I haven't lived in it; I have been here so long.

It cost a considerable sum. I had a contractor who was a man of great integrity and an experienced builder but I doubt that he could have gotten a bond.

One way we got around the situation was that he charged all the materials to me and I paid for them directly. Anyway he was a great builder. He just didn't want to take a contract on and assume that responsibility.

Mr. BROWN. The account has been settled, hasn't it?

Mr. FOUNTAIN. So far as he is concerned, he did a great job but I am still paying on the house.

Mr. Fuqua?

Mr. FUQUA. Thank you, Mr. Chairman.

Mr. Chairman, as to the point you are making, one of the problems we confront is the difficulty of evaluating the work of the contractors and their qualifications.

Now, as the rural housing program has been expanded, has the number of inspectors been increased proportionately to meet the increased participation?

Mr. ELLIOTT. No, sir, it has not. This question, I am aware, is a difficult one. We have tried fee inspectors to see if we could get qualified construction inspectors to do the job. I am constrained as Administrator by the resources that are given to me. We would like more resources, granted, and we could use more resources, granted. However, I am constrained both by manpower allocations and financial allocations in the budget. Under the circumstances, we are endeavoring to manage the program in the best manner that we can.

If we make mistakes through lack of technical qualifications of personnel, it is unfortunate. We are endeavoring to train our people and we have some information that may be useful to the extent that we are now overcoming the problem of inspection. Anyway, we are a long way from getting a final solution to it.

Mr. Hanson, would you give those figures?

Mr. HANSON. At the hearings about a year ago I think the figure that was used in the report was 105 inspectors, fee inspectors. Today we actually have 62 permanent full-time and 41 temporary making a total of 103. So, as you see, there has been no meaningful change in the numbers.

However, our county supervisors and our assistant county supervisors have been getting considerable additional training in this area, and they have been gaining experience——

Mr. FUQUA. I notice that you have a training program and I want to commend you.

Mr. ELLIOTT. Yes, very extensive.

Mr. FUQUA. But I am concerned. In my State I understand you have almost a 40 percent reduction in force of FmHA and we are a pretty fast growing State and particularly in our rural areas.

Do you have any figures for personnel reductions in Florida?

Mr. ELLIOTT. We will give you the personnel figures for Florida.

Mr. FUQUA. I might point out we passed the Rural Development Act which many of us vigorously supported, and the Secretary of Agriculture designated the Farmers Home Administration as the lead agency. Information I have received—and I hope it is incorrect—says that you had a 40 percent personnel reduction in Florida.

Mr. ELLIOTT. Well I don't have the percentage. We have in Florida 85 permanent employees. That is an allocation of a permanent strength——

Mr. FUQUA. You had 148 prior to that and a reduction in force of 59.

Mr. ELLIOTT. We didn't have a reduction in force; I don't believe we riffed anybody.

Mr. FUQUA. Well I mean it was a reduction in force.

Mr. ELLIOTT. I don't have the comparative figure but I will provide it for the record.

[The information referred to follows:]

NUMBER OF FARMERS HOME ADMINISTRATION PERSONNEL IN FLORIDA

	June 1971	June 1972	June 1973	June 1974
Total ceiling: (full-time permanent)	121	115	102	85
Actually employed:				
Full-time permanent	121	113	102	85
Part-time permanent	7	3	4	18
Temporary	7	2	8	11
Student trainees	4	0	1	2
Total employed	139	118	115	116

Note: Compared with June 1971 Florida now employs 23 fewer people as of June 1974. We do not know where BNA publication obtained figures which have no basisi n any recent year.

Mr. FUQUA. Now, did this reduction in personnel order come from OMB or from the Secretary of Agriculture?

Mr. ELLIOTT. Well, Mr. Congressman, I work for the Assistant Secretary for Rural Development, Mr. Erwin, and we get our allocations from the Secretary of Agriculture, both our budget and manpower allocations.

Mr. FUQUA. I understand OMB issued a directive to the Department of Agriculture for a 6-percent reduction. Is that a ballpark figure?

Mr. ELLIOTT. Well, I am aware of what the figure was and who directed it to us.

Mr. FUQUA. My concern is whether Farmers Home Administration suffered a proportionately greater reduction than the other agencies of the Department of Agriculture?

Mr. ELLIOTT. No, we didn't, compared to all the agencies. However the priorities of the Secretary of Agriculture dictate how many people we get in our various agencies.

Mr. FUQUA. Yes, I understand that but I am trying to determine how these priorities are set and how they affect the Farmers Home Administration. The FmHA has been given additional duties under the Rural Development Act. We are trying to get the RDA programs off the ground. While we are having some success in implementing the act, the task will be overwhelming given increased responsibilities and fewer employees.

Mr. ELLIOTT. Well the point that——

Mr. FUQUA. And I am not fussing with you now, Mr. Elliott.

Mr. ELLIOTT. Well, you have a right to fuss at me but——

Mr. FUQUA. No, I am not blaming you for that.

Mr. ELLIOTT. We took about a 6-percent reduction or rather that was an adjusted one. I am not presently aware of the Department's other agencies' relative reductions. I do believe Animal and Plant Health Inspection Service required more people. But within the allocations that we received we were about proportionate with the other agencies. Except where their priority was more urgent than FmHA's for manpower.

Now in fiscal year 1973 in Florida we had a total of personnel of 114 and we had full-time personnel of 102. This year I think we were within our ceilings. We had 85 or a reduction, but we had a total manpower the same, that is, of 114. We made that up with temporaries and part-time employees under our 3,000 part time or "other" category of personnel.

Mr. FUQUA. And what is that relation to the volume of business in Florida?

Mr. ELLIOTT. The volume of business in Florida? I would have to give you those figures and we have them. May I provide those for the record?

Mr. FUQUA. Yes.

[FmHA subsequently advised that the volume of rural housing loans and grants in Florida was as follows:]

	Number	Amount
Fiscal year:		
1972	2,645	$49,561,000
1973	4,480	120,843,000
1974	3,920	103,010,000

Mr. ELLIOTT. But as a general statement they have held static in the number of personnel performing duties in Florida while the programs escalate.

This I would like to provide for the record as to the correct figure but I think it is in the order of magnitude of about a 20-percent increase in volume and——

Mr. FUQUA. But at a time when you had a 20-percent increase in case load volume, you had a reduction in personnel?

Mr. ELLIOTT. Well, we had 114 man-years working on the program but we had an increase in the loan program.

Mr. FUQUA. Oh, that is 114 man-years you say?

Mr. ELLIOTT. Yes, and we had that in 1974 and we will be holding firm in 1975.

Mr. FUQUA. But still with a 20-percent increase——

Mr. ELLIOTT. Yes, Mr. Congressman, I hear what you are saying. We are trying to get more productivity out of the people that we have to perform these additional tasks.

Mr. FUQUA. I am really not complaining about the people that you have working for you. I have had good relations with them.

Mr. ELLIOTT. They are superbly dedicated people.

Mr. FUQUA. But I am concerned about the workload. I am not one to pad the Federal payroll but when you are increasing the workload to that extent, I would think that the Secretary would recognize the need for adequate personnel to carry out the duties of the agency. This is especially true in the rural development area which I think is a very vital effort and one we need very much.

Mr. ELLIOTT. Well I, for one, agree with you that the rural development program is an essential one and in my prepared statement, Mr. Chairman, I address the fact that things are beginning to happen. We are doing the job. Yes, we do make mistakes and yes, we could use more help at times. We have tried to move our people around to meet that workload and we do do that.

But again, as any administrator, Mr. Chairman, we do have to live within the resources given to us. I get my resources from the Secretary of Agriculture.

Mr. ALEXANDER. Mr. Chairman, this is very interesting as a line of inquiry. I would like to pursue it, if the gentleman would yield or if the chairman would permit me to for a few minutes, before we go on with the hearings as prescribed. It might save us time in the end if I might make a——

Mr. FOUNTAIN. Would the gentleman yield?

Mr. FUQUA. Yes, I would be happy to.

Mr. ALEXANDER. General, having had an association in the Air Force for some years before coming to the Administration, you would probably agree that you can't fly a jet airplane on a washing machine motor? I think that is how I would describe the commitment that the Congress has made towards the revitalization of the heartland of America on the one hand and the commitment that the administration has made in providing you as an agency of that administration, with the tools to accomplish that commitment or that objective.

Now in order that you and I might have a full understanding, I have been critical of the Farmers Home Administration for 1½ years.

That criticism arose from personal associations and observations with constituent complaints much like that expressed a minute ago by Mr. Brown, except in Arkansas, but it seemed to be far worse than those presented by Mr. Brown. I want to say that my objective is the same as your objective and that I am as concerned about the accomplishments of your goals as you are. I make the charges and the criticisms that I have made only to try to be constructive and to try to point out to those people who are responsible for your policies that the handicaps they have given you—namely a shortage of personnel and a lack of trained personnel—result in consequences that were pointed out in the report last year.

In that report we observed that in Arkansas, even though there had been substantial housing construction done, we observed a number of overappraisals and we observed excessive abandonments by people who had been placed in housing. There were a number of reasons and substandard construction was only one of them. This results in tremendous economic losses to the American people—the taxpayers that provide the money with which to construct these houses.

Now when people see the fruits of their efforts boarded up on the roadsides in Ohio and Arkansas and Florida and just vacant for lack of a family that is willing to live in housing that is of such poor quality that no one wants to live there, then it is counterproductive to the intent of Congress to enact legislation that would hopefully revitalize this heartland of America.

So I, too, want to congratulate you for the efforts that you have made since you have been the Administrator and for the fine people that you have brought on board since you have been there, who have been helpful in trying to put more horsepower or more thrust into the capability of Farmers Home Administration to do the job that you want done and that we want done.

I would like to know the answer to some general questions, if I may, Mr. Chairman? I would like to know, General, what you have done, what you see your role is, and how you see your role from this point forward in trying to meet this commitment that seems impossible to meet with the shortage of manpower that you have, with the admitted lack of trained personnel in the field that lack the expertise to administer the programs that you have? I would like to also know what you plan to do in terms of upgrading your personnel in the areas where they show marked inability to do the job that needs to be done.

Mr. Elliott. Well, in answer to that first question I can give you two things that we have done immediately: One, we are holding our manpower level. In this budget year of 1975 we took no reduction in our authorized strength either in manpower or in budget in that respect. However, we got no increase either in Congress or in the administration but we have held our own.

In the first year of our training program, which Administrator Smith so wisely instituted, we trained 1,103 people. Last year we trained 1,988 people at Norman, Okla. We increased the capacity at our training center in Norman by 50 percent about 5 months ago in order to speed up the numbers of training opportunities.

Mr. Alexander. May I stop you there just a minute? Now about the pay these people get. Is it comparable to equivalent pay for highly trained people in the same industry and in a similar situs?

Mr. ELLIOTT. I can give a comparability for you. It varies all over the country.

Mr. ALEXANDER. Fine.

[The information referred to follows:]

COMPARABILITY OF FEDERAL PAY LEVELS WITH THOSE OF EMPLOYEES IN THE PRIVATE SECTOR

The grades and pay of Federal employees nationwide must compare favorably with like employees in the private sector, as required by the Pay Comparability Law of 1971.

The Department of Labor, under the law, runs regular surveys, and together with the Civil Service reports to the President's Board which then recommends the percentage of pay increase required to bring Federal employees up to comparable standard with private sector and other factors such as inflation. The law requires only a simple majority of Congress to overrule the President's Board should it deem the recommendation not fair to Federal employees in comparison with the private sector.

Mr. ELLIOTT. In other words, a GS–11 would be the well-paid person in one local area and a GS–12 may be at a disadvantage in another area.

Mr. ALEXANDER. I think that the State director of the Farmers Home Administration ought to be one of the highest paid executives in the State in which he is located because the job that he has to do in most cases is more difficult than the highest paid executive job in those States.

Mr. ELLIOTT. And the State directors to a man would agree with you.

Mr. ALEXANDER. And the State directors to a man are not at this time qualified to receive that kind of pay.

Mr. ELLIOTT. Mr. Congressman, I understand your point.

Mr. ALEXANDER. Thank you.

Mr. FUQUA. I just have one point. Mr. Chairman, may I?

Mr. FOUNTAIN. Mr. Fuqua?

Mr. FUQUA. With your permission, Mr. Chairman, I would like to insert into the record an article from the April 3, 1974, Bureau of National Affairs publication which relates to the situation in Florida that I alluded to a while ago.

Mr. FOUNTAIN. Without objection.

[The article from the April 3, 1974, Bureau of National Affairs publication follows.]

FLORIDA'S ASKEW CALLS FOR STATEWIDE BUILDING CODE, STUDY OF HFA, AND STATE HELP FOR FARMERS HOME ADMINISTRATION

Florida Governor Reubin Askew has called on the legislature to establish a statewide building code in 1974 and to study the feasibility of creating both a housing finance agency and a state mortgage insurance program.

Askew also proposed that Florida take the unusual step of supplementing the staff levels of a federal agency—the Farmers Home Administration—to counteract the effects of a 40 percent cutback in housing staff assigned to the state by FmHA.

The governor's proposals for the coming year, sent to the legislature March 21 as part of Askew's annual housing message, included plans for grant-in-aid assistance for local housing authorities to upgrade their staffs, improve their administrative efficiency and involve tenants in management activities. The message also asked the legislature to provide $5 million to start a revolving site acquisition and development fund for rural areas.

Askew projected that Florida will need nearly 2 million new and rehabilitated housing units between now and 1985 to keep pace with population growth and to replace existing substandard units. Although the conventional housing industry "is capable of meeting this need on an aggregate basis," the governor said, it cannot do so "at a price that many families can afford." Already more than half a million Florida households pay one third or more of their incomes for housing—and nearly three quarters of these families earn less than $4,000 per year.

Although the state's ability to meet the housing needs of lower income families is limited—particularly as a result of what he termed the "disappointing" policies of the Nixon Administration—Askew said Florida must work cooperatively with federal agencies and get the most out of Washington's new directions.

The Administration's apparent decision to put heavy emphasis on state housing finance agency involvement in its revised Section 23 leasing program—the only large scale subsidized production vehicle HUD plans to use this year—is an example of a federal opportunity Florida should not miss. "(We are) in a dwindling minority of states that have not adopted this promising (state housing finance agency) approach," Askew noted. "It has not been possible to develop an appropriate state institution within the past two years because of the numerous changes in, and insecurity about, federal housing programs." With the advent of the new Section 23 program, however, the governor said Florida will be "at a definite disadvantage in obtaining federal funds if it does not develop an agency . . . appropriate to our peculiar conditions."

Another example of response to emerging federal policies is in rural areas, where Askew projected sizable losses in housing assistance funds this year due to a 40 percent staff cutback in Florida's Farmers Home Administration offices.

The cutbacks, which are part of a nationwide 10–15 percent average staff reduction by the Department of Agriculture's FmHA, hit Florida especially hard—with the state losing 59 of its 148 employees.

The governor noted that FmHA's national budget allocates $90 million in funds to the state this year, but that a large portion of it, perhaps as much as $30 million, would have to be reallocated to other states because of the lack of staff to administer the loan programs. To forestall such a loss, Askew requested that the legislature fund eight staff positions to supplement FmHA's staff, and to work as an "outreach" arm to bring in loan applications. He also proposed that the state provide additional assistance to nonprofit and public developers of low income housing with a $5 million revolving fund for site acquisition and development loans.

On the need for a statewide building code, Askew said that "over-stringent construction requirements and the multiplicity of code jurisdictions" in the state have had the effect of "unnecessarily increasing the cost of construction and stifling the use of innovative materials and construction techniques." These problems have been compounded by a lack of "adequately trained officials responsible for code enforcement and inspection." As a first step, the governor asked for funds for seven staff positions to draft a state building code and to provide technical assistance to local governments in its adoption, administration and enforcement.

Although offering the state mortgage insurance program concept only as a subject for further study by the legislature, Askew noted that mortgage insurance "has proved to be an efficient and beneficial tool in facilitating the housing process for many low and moderate income families." He provided no details on what tie-in, if any, such a program would have with an eventual state housing finance agency, or with Florida's existing Housing Development Corporation.

Mr. FUQUA. With the gentleman from Arkansas' line of questioning, FmHA's budget allocated $90 million in loan funds to Florida of which $30 million had to be reallocated to other States because the Florida FmHA didn't have the staff to administer the loan program. This article states that Governor Askew in his message to the legislature asked for 8 State employees to be paid by Florida for assignment with the Farmers Home Administration in order to help administer some of the loan programs.

Now, were you familiar with this?

Mr. ELLIOTT. I am pleased in many States both the Governor and some of the local officers have provided us with manpower assistance and we are appreciative of it.

Mr. FUQUA. It looks like someone, somewhere, ought to get the message when we have to lean on the States to help carry out a Federal program.

Mr. ALEXANDER. If the gentleman would yield?

It appears to me just from the discussion here this morning that it is going to be the job of the Congress to provide that initiative and that leadership. Obviously the Administrator of the Farmers Home Administration is not getting the help he needs from this administration.

Mr. FUQUA. I am not criticizing him. I think he is doing a fine job. I want to help him to do a better job.

Mr. ALEXANDER. We are just going to have to assume that responsibility in the Congress because it has not been assumed by this administration.

Mr. FUQUA. I think Mr. Naughton has some information from GAO which shows that the FmHA personnel cuts have been proportionately greater than those of other agencies in the Department of Agriculture.

Mr. FOUNTAIN. Suppose we let Mr. Naughton give us the benefit of his information at this point.

Mr. NAUGHTON. This is information which was supplied informally by personnel of the GAO. I will read it and the witness may comment on it, if there are any inaccuracies in it.

Mr. ELLIOTT. We will correct them in the record if there are any.

Mr. NAUGHTON. It states:

> The Office of Management and Budget ordered the Department of Agriculture to reduce their ceiling of full time personnel in permament positions by six percent in fiscal year 1974. Agriculture's Office of Management and Finance, which at this time was named the Office of Finance and Budget, determined the degree of personnel reduction in Agriculture's various agencies and made their recommendations to the Assistant Secretary for Administration.
>
> The Office of Management and Finance requested some agencies, such as the Farmers Home Administration, to reduce their full time personnel ceiling by over six percent—

and this figure was about 10 percent in Farmers Home Administration according to this information—

> while others such as the Forest Service were requested to reduce personnel by less than six percent.
>
> The criteria used by the Office of Management and Finance included current program funding and other knowledge of program needs and requirements.

Apparently the Office of Management and Finance felt FmHA's new responsibilities in the areas of other essential community facilities and business and industrial loans were not sufficient to warrant Farmers Home Administration retaining their fiscal year 1973 personnel level.

Mr. FOUNTAIN. Any comments on that?

Mr. ELLIOTT. I will let it stand in the record, if I may, Mr. Chairman. But, on this point concerning the budget for fiscal year 1974, I do know the recommendations to the Secretary for manpower allocations for the agencies of USDA. The Secretary made his decisions on allocations to the agencies based on his priorities for the Department at that time. I was the Assistant Secretary for Administration then.

[The following additional information was subsequently provided:]

MANPOWER CUTS FROM 1973 TO 1974 FOR THE DEPARTMENT OF AGRICULTURE AND THE FARMERS HOME ADMINISTRATION

The Department of Agriculture was given a six percent cut in manpower for 1974, compared with 1973. Farmers Home Administration had 7,354 permanent

full time employees in 1973, contrasted with 6,600 ceiling in 1974 which is about 10 percent reduction.

Mr. Brown. Mr. Chairman, I must depart, but I have been so moved by the problem of staffing that I would ask unanimous consent that we may insert in the record material that we might get the minority staff member of this subcommittee to gather with reference to attitudes about bonding versus no bonding versus escrowing of funds for small contractors.

And I think what we will really try to do—and I might say this to the gentleman from Arkansas and to the Administrator—is to try to ask various agencies, bonding houses, some banks and so forth back home and also small contractors and maybe some groups representing contractors what, in view of the current economic circumstances, they would find most desirable in this area and what the relevant cost would be and so forth. We will make them available to you for your consideration and also to the subcommittee with reference to their particular problem at this particular time.

I recognize that we may get some modifications relative to what economic circumstances are affecting us peculiarly at the moment but I don't think it would hurt for us to get this information and it wouldn't be a burden on the Farmers Home Administration.

You can have your folks out in the field, instead of just talking to people, gathering information.

Mr. Elliott. We would consider that most helpful, Mr. Congressman, and we would also appreciate your administrative assistants giving us the information on those people who have difficulties.

Mr. Brown. We will be in touch with you about specifics.

Mr. Elliott. And we will take corrective actions.

Mr. Brown. I would say for the record we have not done so because this just turned up this weekend and I write these problems down so I am the bottleneck in this instance.

Mr. Elliott. Believe me, we appreciate every time any Member of the Congress or anyone else can find problems that we need to address. If you let us know, we will address them.

Mr. Brown. Thank you.

Mr. Alexander. Mr. Chairman, I, too, have a document that I would like to make reference to.

It is about 10 pages long and was prepared by the Congressional Research Service of the Library of Congress by Dr. Morton J. Schussheim, senior specialist in urban affairs, which is Report No. HD 7287 U.S.A. 74-96 S and is entitled "Rural Housing Programs—A Progress Report." I would like to ask unanimous consent to insert this as a part of the record at this time.

Mr. Fountain. If there is no objection, it will be included.

[The document referred to appears as app. 18, p. 43.]

Mr. Fountain. Before proceeding with our planned questioning, I want to follow up on some very pertinent observations and questions which I think have been asked. Maybe this is a good way to start some of these hearings so that each member can bring to your attention some of the individual situations with which they are familiar.

General, I know that you, for a long time, were part of the military. I was too, in a lower capacity—where we are given orders and commands and we don't question them. We go ahead and carry them out. Realizing the extent of your responsibilities and the responsibilities of your agency and the many additional duties which have been assigned to it, are you making an effort to sell your position to the Office of Management and Budget in support of what you think are the needs staffwise and otherwise of your agency?

Mr. ELLIOTT. Within the Department of Agriculture, sir.

Mr. FOUNTAIN. Within the Department of Agriculture?

Mr. ELLIOTT. Yes; I am addressing that problem.

Mr. FOUNTAIN. Have you seen any indication of any weakness within the Department with respect to putting the appropriate kinds of emphasis in their appearance before the Office of Management and Budget?

Mr. ELLIOTT. No, sir, not to my knowledge.

I don't go up there. I just stay within the Department of Agriculture in defense of my agency's requirements. Let me make a point. There are many things in the Farmers Home Administration as it grows into its new role of serving rural America under the Rural Development Act which are changing their habitual patterns and habitual ways of doing business. There are many efficiencies available to us which we are pursuing. And I have indicated in the statement in the record the things that we have been doing to try to correct some of the ancient, built-in workload problems at the county level. The efficiencies that are available to us can make a great contribution to the county people in pursuing their jobs of making good loans and supervising their loans, which has been their historic success story, that is, the supervision of credit. And those efficiencies we have been about since I have had the honor of being confirmed as Administrator, August 3, 1 year ago.

I am reminded it is a little tough to turn the *Queen Mary* around in the Potomac River. You run the bow into the Blue Plains and the stern into the swamps of Alexandria.

Mr. ALEXANDER. It doesn't smell that way does it?

Mr. ELLIOTT. Sir, it sometimes may. And, in turning it around, I believe we have had an appreciable success this year. We have consulted with many people within the organization from the county level all the way up to every other level. We have asked outside consultants to test our policy directions and organization and we believe within—well let me put it a better way.

I believe within this year many of the efficiencies that we are currently on course to achieve will be obtained. We will be able to be persuasive in this budget year that any reduction of personnel would not serve the program well and so that was achieved and we maintained our personnel ceiling level.

I believe with the efficiencies that we are about, with the training that we are about, and when we have this year under our belt that a case can be made on logical sound grounds for some of these questions that you gentlemen are properly asking.

At this time, until we achieve those efficiencies, until we do bring this training into the forefront—and we are working and have worked all this year very hard on it—it was underway before my arrival—and are achieving a lot of these efficiencies and making man-hours available to do the primary job of loan making—but until we——

Mr. ALEXANDER. Mr. Chairman, would the gentleman yield for a question?

General, there are some State directors who are in my judgment grossly incompetent. What have you done in order to increase that efficiency?

Mr. ELLIOTT. Interestingly enough there had been few State meetings and they had not had the national staff and the State directors together in training sessions over the previous years. It was felt to be in the best interest of all of us to insure the broadest knowledge and the broadest experience for each of us and we now have had several State directors and national office meetings. Because I can't empty the offices, we do it on our own time on weekends.

We believe we are getting a better understanding and training at the State director-national level through these programs.

Mr. ALEXANDER. If the gentleman would yield further? General, there is an old Arkansas saying that you can't make a silk purse out of a sow's ear. Now, are you doing any more than training and trying to get a better understanding with some of these directors that are incompetent?

Mr. ELLIOTT. Now I don't concede to your observation that these men may or may not be incompetent. That is a matter of judgment on both sides of the equation.

There is a Missouri saying that it is hard to get the attention of those who are not keen enough. And if I may suggest, in cases where I thought they were less than keen, the application of the Missouri formula has been applied.

Mr. ALEXANDER. I think it may be successful.

Mr. ELLIOTT. I would hope so, sir. If not, I am prepared to go the next step.

Mr. ALEXANDER. Thank you.

Mr. FOUNTAIN. I would like to say, Mr. Elliott, I think the observations you made earlier are most pertinent and meaningful. I think members of the subcommittee have been sympathetic with your problems and the problems of FmHA. You suddenly had thrust upon you a tremendous program dealing with housing and construction of housing, which was not the original intention of legislation establishing Farmers Home Administration, and we realize the problems you've had and your need for qualified personnel. I am also mindful of the fact that regardless of which political party is in power, that to a large extent State directors have been political appointees.

It may be that the leadership of both administrations, whichever may have been in power, may not have always exercised the very best judgment and that sometimes you may not have had control over the final selections.

What is the situation now? Do you have control over the final selection of State directors?

Mr. ELLIOTT. Control?

Mr. FOUNTAIN. Do you tell them whether or not they get the job or keep it? Do you make the final decision?

Mr. ELLIOTT. No, I do not determine whether or not they get the job. I would have veto power to the extent it would be necessary to exercise it.

Mr. FOUNTAIN. But it takes some time after people are hired before you find out how well they can do the job.

Mr. Elliott. That is quite correct. Mr. Chairman, over a lifetime of experience with organizations, both military and in civilian life, you find that you take jobs or are given jobs or you happen upon situations that you are responsible for at that moment and for a time period. It has been a common policy that I have followed that you take the people that circumstances gave you; you take the job that you have to do and get about it. If you find that the problems of individuals are not adjustable, in other words, the Arkansas formula does in fact pertain as opposed to the Missouri formula, then you take the hard decisions and move on those.

I am prepared to do that where the facts are sustainable regardless of what process gave me the individuals with whom I work. As I pointed out, I have been around a great many organizations and a great many years and I have rarely seen dedication of purpose and effort like the dedication of the people in the Farmers Home Administration which they have shown to me over my brief tenure with them.

The thing that I think needs appropriately to be understood is that FmHA went from a rural, farm-oriented organization with many mores and customs and built in procedures that took time and will take some more time to bring into the new world to where they are in fact a rather large financial activity in rural America with great responsibilities to the citizens in that area. I think the delivery system in Farmers Home in county offices is one of its very strong points. Secondly, I think the ability of the citizens of this country to judge us on a day-to-day basis and correct us in our inadequacies will help solve problems.

This is another of our great strengths. But the dedication of these people out there is amazing and their willingness to try to change and their ability to change and cope with these ever-increasing responsibilities is a great credit to every one of them. It amazes me.

Mr. Alexander. Mr. Chairman, just to offer a little balance to what the general says about dedication, I would only reply that State directors have been characterized by a Republican Member of Congress in this way: About 40 percent of the State directors are totally incompetent and in many cases they represent third-string Republican politicians who couldn't make it anywhere else.

Now I just would say this, General. We can't be totally patient where the administration of these programs is costing the American people millions of dollars in incompetence and in waste and in inefficiency. Maybe most of all it is creating an attitude of frustration and causing a lack of hope and confidence in the ability of our Government to accomplish the objectives that we have set forth.

Now the Rural Development Act was passed in 1972. The Federal housing programs have been on the books for more than 10 years.

Just this last year the Congress authorized and approved $2,149 million for rural housing. Now this is not peanuts.

Mr. Elliott. No, sir.

Mr. Alexander. That's not peanuts in my ball game.

Mr. Elliott. No, sir.

Mr. Alexander. This is what we call heavy money, and to sit back and wait for attrition for these incompetent State directors to gain their retirements or whatever, well, I think that is a gross injustice to the American people.

Mr. FOUNTAIN. Well, I would like to concur with the gentleman from Arkansas wherever that situation exists. I am not familiar with the facts concerning many of the State directors but in view of the amount of money that is involved and the nature and importance of the program, especially as it helps to develop rural America, this may be an area where we should consider taking politics out of the appointment process if it would improve the selection procedure. In saying this, I should mention that I think most officials who have recommended and selected State directors in the past have generally tried to choose competent people, even though they have not always succeeded.

But I do think every possible effort should be made to insure that people who are appointed to serve in these areas ought to be dedicated and concerned people. I can assure you that on this subcommittee you have people who are concerned about rural America because many of us come from rural America. I grew up on a tobacco farm and lived in a small village of about 200 people. I never achieved the accomplishment of my distinguished colleague from Florida and I think it is appropriate for me to say here that I understand he was at one time Florida State president of the Future Farmers of America organization which is a tremendous organization and which prepares many of our young people to not only appreciate the problems of rural America but to make an input into meeting the needs of our people.

Those of us who are elected to serve our people are concerned and interested in what you are doing and willing to cooperate in any way we can to improve the program.

Mr. ALEXANDER. Mr. Chairman, one further point——

Mr. FUQUA. I was enjoying what the chairman said.

Mr. ALEXANDER. Oh. I am sorry. I thought you were through.

Mr. FOUNTAIN. I was just starting on the prepared program.

Mr. ALEXANDER. But just one further point. I would like to ask unanimous consent to introduce for the record a copy of a press clipping from Montana. It is the Missoulian, which apparently is a newspaper in Montana.

The caption reads: "State FHA Boss Criticizes Government Home Lending."

This is a statement by the State director of the Farmers Home Administration in the State of Montana who has obviously lost confidence in the capacity of our Government to administer the rural housing program.

Mr. Chairman, I submit it as evidence in the record of the remarks that I made a minute ago.

Mr. FOUNTAIN. If there is no objection, it will become a part of the record.

[The article referred to follows:]

[From the Missoulian, March 20, 1974]

STATE FHA BOSS CRITICIZES GOVERNMENT HOME LENDING

(By Charles S. Johnson)

Private enterprise—not the federal and state governments—should assume the leadership in financing homes for Americans. Richard Smiley, state director of the Farmers Home Administration, said Tuesday.

Even though he heads the federal agency in Montana, Smiley, a former state legislator from Bozeman, criticized the expanding roles of governmental bodies in financing housing.

"My viewpoint is that unless the attitude of the public changes, financing will come more and more from public funds," he said in an interview with The Missoulian. "That could result in additional public debt, which I am completely opposed to."

Smiley, an unsuccessful Republican candidate for Congress in 1966 and 1968, was in Missoula to participate in a panel discussion at the Montana Building Material Dealers Association annual convention.

"There is no reason why private enterprise can't do it (finance homes instead of government agencies)," he said, referring to banks and savings and loan associations.

"Private enterprise could do everything the Farmers Home Administration and the Federal Housing Authority is doing and do it more effectively," Smiley added.

Through ignorance, the public is contributing to the problem, according to Smiley.

"Politicians are offering utopia to the public," he said. "Even though it's unworkable, the public is buying it at the polls."

Smiley blamed Republicans as well as Democrats for offering "grandiose schemes" to use public funds to finance housing.

"We are now getting in Washington and Helena exactly what we deserve because we haven't paid attention," the federal official said.

One reason Americans have gone along with public financing of housing is because of the "greed" of private enterprise in this field, he said.

But this greed on the part of private enterprise is nowhere near the problem "as the politician who offers something for nothing," the federal official said.

Smiley also criticized laws that penalize persons for fixing up their homes by increasing taxes.

"I say it ought to be the other way around," he said. "You should get a tax incentive or reduction for fixing up your home."

Smiley said he is encouraged by some changes in the Farmers Home Administration. He cited a new program for business and individual loans, for which a private source provides the money and the government guarantees it will be repaid.

"I think we're beginning to see a little more of this viewpoint in Washington and the administration of the Farmers Home Administration, but not in the Congress or in the populace anywhere," he said.

Smiley's office handled about $26 million in loans to Montanans last year.

Mr. FOUNTAIN. Mr. Elliott, in the record prepared by the subcommittee and adopted by the Committee on Government Operations in December of 1973, there were a number of specific recommendations for actions, as you recall, by the Department of Agriculture and particularly by the Farmers Home Administration.

We received an interim report on actions taken some time ago. I understand that we have just been given a further report this morning with respect to those recommendations.

I had planned to request a further report indicating: (1) actions that have been completed; (2) any action in progress but not yet completed giving this anticipated completion date of any action not yet completed; and (3) any planned action which has not yet been started, giving your best estimate as to when it will be started and completed. Also, in the event there are recommendations that you do not intend to follow, we would appreciate being advised of the reasons for your position on any such recommendations.

This information may be fully covered in the report just provided; to the extent it is not, we would appreciate your providing it.

Mr. ELLIOTT. Yes.

Mr. FOUNTAIN. I think it would be useful at this time to review briefly the action taken on recommendations.

Before doing that, I understand you have a prepared statement. We will make that a part of the record.

You may summarize it or you may respond to questions that we will ask, which may include an opportunity to respond or to include some of your answers in response to these questions, whichever you desire.

Mr. ELLIOTT. Rather than to take your valuable time, my statement can just go into the record if that is satisfactory.

Mr. FOUNTAIN. Fine.

[Mr. Elliott's prepared statement follows:]

PREPARED STATEMENT OF FRANK B. ELLIOTT, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE

Chairman Fountain, and members of the subcommittee, I appreciate the opportunity to respond to your request for an accounting of Farmers Home Administrative developments this past year. On February 20 FmHA forwarded to your subcommittee an interim progress report on management practices in which you were concerned. I will expand upon that report in my testimony today.

Previously before this subcommittee I touched upon our growing responsibilities and the all-out attention being given to bringing FmHA into a truly business-oriented operation. You have asked what we have accomplished in improving delivery of these programs and the outlook for further betterment of management. I will address my opening statement to these points. Details and data on the FmHA program progress will be supplied for the record, in addition to providing oral answers to questions you submit to us at this hearing, or later by your staff.

You will recall that I reported to you last year concerning our first efforts in tightening up procedures at every step from the county level through to the national. We have walked several steps beyond these early beginnings. This has come about through rigid and continuous enunciating of goals and activating the best possible means, within the resources granted us, to carry out the objectives we have set.

Initiative for this progress has come about largely from within the organization, but also by way of hearings such as these before your subcommittee which focus upon problems that require definite correction and, at times, a change of direction. The net result of this combined responsibility is to create an attitude of enterprise and urgency which accelerates effective action.

Our agency has burgeoned into a major and diversified financing agency, requiring a strenuous effort of constant training for our personnel at all levels. We are fully aware that this drive is essential for properly carrying out the increasing number, and extent, of programs entrusted to us by the Congress and the Administration.

During this past year we have:

1. Upgraded our personnel training programs;
2. Pressed forward with a field oriented review system;
3. Developed and are implementing a property management system;
4. Re-worked our data and our computer output;
5. Changed borrower application and contractor forms for packaged housing;
6. Set up management direction at National and State levels; and
7. Made full use of the Office of Investigations, as well as the USDA Office of Audit.

The Operation Review teams from the national office have completed program reviews in each State. County and State staff members have served on these teams, thus making each review a coordinated learning effort. Personnel training now ranges from courses at the Norman, Oklahoma, center and Federal and non-government institutions to localized programs in such fields as construction inspection. Others involve on-the-job supervised training; State and regional instruction meetings; and the operations review function conducted by the national office.

A recap of personnel receiving training at Norman reveals that fiscal 1974 showed a substantial step-up in this important program above the nine months in which the training was operative in 1973. The total for 1973 was 1,103 compared with 1,988 in 1974, for a grand total of 3,091. The Administrative, Management and Supervisory segment showed the best gains—268 in 1973 as compared with 641 in 1974. However, other major levels also showed an acceleration. Supportive training totals will be supplied for the record.

The property management system, now underway, is aimed at resolving and monitoring problem accounts and expeditiously handling disposition of defaulted loan properties. It will provide more accurate cost factors attendant to acquiring and selling the properties. New accounting and reporting procedures from the county level through the computer stage will be correlating unpaid loan balances, cost of repairs, price received on disposition, and net gain or loss on the transactions.

The FmHA data and computer system has had a potential for supplying a substantial assist in our work load from county to national offices. Many areas and types of management information and data have now been identified, and our St. Louis office is being programmed to solve some of our major requirements.

Private packagers of housing have been of great assistance in supplying more homes in rural America. However, your subcommittee has raised some questions about possible defacto delegation of responsibility to the packagers. New forms spelling out specifics have been devised for the applicant and the contractor to assure that both understand fully their areas of responsibility, in addition to tightening surveillance by the FmHA county specialists. FmHA loans are limited to our appraised value of each home, so that undue profits by a contractor are highly unlikely.

Management direction now places emphasis on the national staff acting as generalists so that more constructive time can be given to improving program management, gradually delegating more responsibility over local programs to the State and county level where delivery is made. County supervisors and their staffs are becoming highly trained specialists with knowledge of local conditions to better carry out programs, rather than depending upon national division staff members for routine decisions. The State or national office, of course, is still consulted in problem areas and counties are subject to continuing review. Tools for the county staffs—such as elimination of some locally-kept records, use of electronic calculators, access to central computer output, and some switch to guaranteed loans which may save much supervision time—are all a part of our management plans being implemented as rapidly as possible.

Whenever serious problems appear to be surfacing in any level of management, FmHA calls in the Office on Investigations for a thorough investigation. The primary consideration here is to identify the problems and correct them, hopefully before they become major ones. Another positive side of OI use is to further emphasize to FmHA employees a better understanding of our program purposes, our policies, and our management requirements.

Farmers Home Administration is proud of its preponderance of strong and stable county staffs. It is at this point of our delivery system where the real strength of FmHA exists.

Now, I know your subcommittee is particularly interested in the housing phase of our highly diversified rural assistance portfolio. While each of our programs is integrated into the total rural development concept, housing remains in high priority. Although the entire package stands or falls on our ability to attain total professional management, housing is a unit in any Federal or private loan program that is unusually vulnerable to economic changes. Recently we have found it difficult to find a means of keeping pace with our share of the Nation's needed housing.

From the management viewpoint, we have thought that renovating of older houses might be the answer to low-income families. Interest rates are set at 1, 2 or 3 percent depending upon family income.

It is encouraging to note, however, that rural rental housing has been expanding. FmHA encourages rural rental housing loans to individuals, non-profit corporations, corporations, trusts and partnerships. Most families and individuals occupying these rental housing units are the elderly and the young families who are not yet ready for home ownership, but who are highly important to every community in a social and business sense.

In the 1974 fiscal year just ended, Farmers Home Administration made a total of 98,343 loans in its housing program. Low-to-moderate housing loans led the field by a wide margin with 94,371 and a dollar total of $1,589,883,200. Next came the very low-income repair loans for a total of 2,968 representing $4,429,729. Rural rental housing moved up to 879 loans for a dollar amount of $173,314,030. Other lesser amounts were loaned for 76 farm labor housing projects plus 11 labor housing grants; nine site loans; 1 self-help housing and development loan and 28 self-help housing grants. Grand total for fiscal 1974 in our housing program was $1,793,293,749, almost equaling all the other FmHA programs combined.

FmHA, of course, is not the only generator of housing in rural America, but it is attempting within its resources to fill a vital need for low-to-moderate income families.

We are operating in a mobile national situation that makes it difficult to pinpoint a positive means to provide for the low-income housing need we are aware exists in the small communities of our country, although there are bright spots in some States where industry is expanding in rural areas. We continue to press our present programs within the framework of law and the eligibility of families to make modest payments on a home.

I will mention a few of the positive approaches we are taking to ease the problem:

1. We periodically increase the maximum adjusted income allowable for borrowers under our regulations, to keep pace with inflation;

2. We supply Members of Congress with thousands of pamphlets and fact sheets on our programs, who in turn send them to persons or organizations inquiring about FmHA services; and

3. We counsel with potential borrowers, lenders and contractors at the local level.

All of this, of course, is just a part of the overall day-by-day effort which our 1,752 offices put into selling and servicing rural housing.

In concluding my formal statement, it is interesting and gratifying to note the changes taking place in rural America. Publications are calling attention recently to the upward population trend in more of the areas served by FmHA. It appears that growth in job opportunities and the desire of more people to remain in, or return to, the rural environment, are the factors creating this switch. Interstate highways and the latest in communications are now permitting industry to build plants adjacent to the markets. It holds a very promising future for small-towns.

Based upon these observations, it is true that FmHA is in an excellent position to fit into this pattern as an important segment of the trend in rural housing. It portends more demand for our business and industrial loans, community facilities and housing.

I have provided the background for the questions you will pose. We are now ready to respond, Mr. Chairman.

Impact of the Rural Development Act on Programs of the Farmers Home Administration—U.S. Department of Agriculture

Impact of the Rural Development Act of 1972 can best be measured if loan activities of Farmers Home Administration are viewed from the standpoint of (1) new authorities under the Act, and (2) expansion of established programs from the time the rapid growth of FmHA began.

FOUR AUTHORITIES WERE COMPLETELY NEW IN FISCAL YEAR 1974

$50 million was provided for COMMUNITY FACILITY LOANS; 102 loans were made, helping 412,214 families.

$200 million was provided for BUSINESS AND INDUSTRIAL LOANS; 399 loans were made, preserving or creating 19,300 jobs.

$10 million was provided for BUSINESS AND INDUSTRIAL GRANTS; 136 grants made.

About 5,000 youth loans for $15 million were made from operating loan funds.

PROGRAM EXPANSION

LOANS, GRANTS AND DOLLAR AMOUNTS, INCLUDING NEW PROGRAMS

[Dollar amounts in millions]

Program area	Fiscal year 1969		Fiscal year 1974	
	Number of loans	Amount	Number of loans	Amount
Farmer	91,449	$696.2	88,830	$1,023.3
Housing	54,866	512.1	98,343	1,793.3
Community	2,091	222.6	2,263	774.5
Total	148,406	1,430.9	189,436	3,591.1

Cumulative: June 30, 1968—382,945 borrowers; $4.778 billion outstanding. June 30, 1974—765,043 borrowers; $12.974 billion outstanding.

About $25.8 billion has been loaned during the life of the agency's active programs; less than 1% of principal advances has been written off. More than $15.6 billion of the total was loaned between FY 1969 and the present.

PROGRAM HIGHLIGHTS FOR FISCAL YEAR 1974

Farmer: Operating loans reached a record $524.99 million; number of farmers served—53,865—was up for the third year after 8 years of decrease. Ownership loans were $352.2 million, third highest in history, exceeded only by FY 1972 and 1973. FmHA borrowers also received $496 million in credit through loans made cooperatively with regular lenders.

Housing: After setting new dollar records every year for eight years, loans for rural housing declined 4% this year, but were more than triple the 1969 lending level. Rental loans were 10 times greater in 1974 than in 1969. At $10 million, farm labor housing loans matched the sum lent last year, and the $20 million lent in these two years matched the sum of all loans from program inception in 1962 through FY 1972.

Community: In addition to programs mentioned as new in FY 1974, 1,326 loans for $469.99 million financed water and waste disposal systems serving about 330,000 families. This is $70 million above the previous high set in 1973. Since FY 1969, rural communities have borrowed 2½ times as much as they did from program inception in 1961 through FY 1968—$1.8 billion vs. $721 million.

Mr. FOUNTAIN. I think you have anticipated some of the questions we may ask. We will go ahead and ask them and then it may be that in response to those questions you can expand upon some of the material you have in your statement.

Mr. ELLIOTT. One thing I would say. One of the major problems that we are confronted with that your subcommittee brought to my attention forcibly last year was our data and the ability for management at this level to provide Congress information that is current and correct.

I have been at a number of finance centers; one in the Air Force and one in the Department of Agriculture. It takes a bit of doing to go in and find out what you've got and to make the necessary programs or systems corrections. We are still working with the St. Louis Finance Center which is the hub of our accounting and data processing operations, to correct some historical problems. We are at this time not near the final solution to the problem.

We have had consultants out there who have given us their best advice. It checks with what our reading is and I would be glad to submit the consultant's letter for the record which suggests we have a major systems design problem; however, what we do have out there with a few necessary technical corrections can hold the line for us while we get a decent, thorough, up-to-date systems design completed.

So to that extent, Mr. Chairman, I would like you to know that we have not finally solved that problem in that particular sensitive area.

[The letter referred to follows:]

JULY 26, 1974.

To: Frank Naylor.
From: Bruce Rohrbacher.
Subject: St. Louis Finance Office.

The purpose of this memo is to report briefly on the visit Doug Axsmith and I made to the St. Louis Finance Office last Wednesday, July 24, 1974. It confirms the oral report we made to you, Art Harman, Joe Freburger, and C. A. Hanna on Thursday morning following our trip.

We spent the bulk of our day in individual or group discussions with Charlie Shuman, Bob Lang, Joe Freburger, one of the senior systems analysts, the head of the computer operation, and a Burroughs representative. Our goal was to analyze what went wrong earlier this month, to determine why it went wrong, to ascertain if similar problems are likely to arise again, and to explore ways of preventing that. The limited time precluded our examining records or documenting findings, however by cross checking in our discussions with the several individuals, we were able to get reasonable verifications, and we feel quite confident of our findings and analyses.

Our findings and recommendations are summarized as follows:

1. Although there are some flaws in the computer system design (e.g., only last entry retained in master file) which contribute to some inefficiencies in computer operations, neither the computer system nor lack of computer capacity were the primary causes of the system "breakdown" this month (i.e., falling behind in posting cash receipts and in issuing delinquency notices).

2. The problem was more directly due to the peaking of workload (e.g., extra funds to be obligated, and fiscal year end reports to be prepared) and to insufficient data conversion resources to prepare input for the computer. Since the peak workload functions were completed before receipts could be posted, the data conversion resources available were applied to those functions first, and data conversion for posting of cash receipts to borrower accounts was deferred.

3. This same sort of problem is likely to occur again next year, in January and in July or October (the month following close of the fiscal year).

4. A major, crash effort at a fundamental redesign of the computer programs or at replacing the present equipment is not going to solve the type of problem that just occurred or is likely to occur again next year in January and July.

5. However, exploration of a number of steps can and should be undertaken well in advance of January to prepare for coping with the problem.

6. Steps of the following three types can be taken and will most certainly alleviate the problem and possibly eliminate it altogether:

(a) Continue the MIP projects, concentrating most heavily on those giving greatest promise for reducing the data conversion work load or for speeding up input to the computer.

(b) Shift peak month work load. For example, some work load (e.g., interest payment notices) might be done in a different month or be handled by an outside service engaged to prepare data for the computer and/or run it. Also, cut-off dates might be changed. Or, some requirements (e.g., delinquency notices) might be delayed or dropped altogether during the peak month. These and other suggestions were discussed in St. Louis.

(c) Consider adding a relatively simple additional computer operation. This idea, which we have not yet analyzed carefully, was not discussed in St. Louis. Essentially it calls for looking at the transactions as being of two principal types: those that should be processed promptly *as received* (e.g., loan payments) or those that should be applied according to *the date on which they occur* (e.g., loan commitments, obligations). If a copy of the complete file as of June 30 were prepared at close of business June 30, processing of the post-June 30 *as received* transactions could continue to be applied against the original file without delay. The *as occur* transactions could be accumulated against the copy of the June 30 file until all those occurring before July 1 had been received. Then, end of year reports could be drawn off that copy. The original and the copy could be reconciled and normal processing could be resumed. As noted above, this type of action has not been developed in any detail nor discussed in St. Louis. That would have to be done, and the idea, which specifically addresses the July problem, might have to be modified to cope with the January problem which differs somewhat from the July problem. Nevertheless, we believe it is worth exploring.

7. It should be noted that in none of the above have we recommended any changes to file structure or to computer programs. In fact, we recommend such actions be avoided. The computer system, indeed, the whole Finance Office, is adequately meeting operating needs during 10 months of the year. And in the two peak months, it does not appear to be the capacity of the computer, nor the computer programs, which are causing the problems. Therefore, a substantial overhaul of the computer system by itself does not appear to be in order; particularly, not a crash effort.

8. Despite this, FmHA does have serious systems problems. The computer system was designed some 6 or 7 years ago. Since then, activity has increased significantly, new loan programs have been added, virtually every old loan program has been changed at least once, and new input methods have been introduced. The computer system has been "patched" to keep up. Thus, even though we believe the computer system's logic still serves operations adequately, it is no

longer an efficient system; there is little or no flexibility left to accommodate to future changes. That fact alone suggests a reexamination is in order. But more importantly, because FmHA is reorganizing and changing many of its ways of managing, we believe there is need for fitting whatever is done with the computer into a broader and more fundamental overall system examination. As we have observed on previous occasions, the linkage between the computer and other elements of the overall system is not good, and therefore we believe there is need for a broad look at all aspects of FmHA operations from source to end, taking into consideration the new organization, new processes, new policies, and management information requirements, and fitting the computer appropriately to them.

9. Thus, we recommend a short term effort, such as that outlined in 6 above, and a longer term effort, such as in 8 above, be undertaken in parallel. In that way, we believe both the immediate and future needs of the Agency can be effectively met and FmHA's investment costs can be kept to a minimum.

Mr. ALEXANDER. May I direct a question to the general about certain procedures that may be included in the design, in the audit?

I was disappointed to learn a few years ago, before you arrived as the Administrator, that one of the accounting procedures that was followed in Farmers Home Administration—well, at least it was reported to me—was for example, taking a house in Arkansas that was vacated by a borrower who moved somewhere else, instead of a foreclosure procedure—and that is customary in housing matters where there is a default involved—there was an assignment of the property obtained one way or the other from the borrower who defaulted on the loan back to the Farmers Home Administration. Then, instead of classifying the loan as in default and as a bad debt, the Farmers Home Administration was classifying that as an asset due and payable by the borrower at some future time. When the report came to Congress about the status of the loans that had been made by the Farmers Home Administration, we got a very rosy picture. The impression was there weren't too many defaults and that, in fact, everybody was paying on time and there were no bad debts and so forth or very few bad debts where, in fact, there was a high percentage of losses.

Will your new accounting procedures correct that policy that was evidenced by my statement?

Mr. ELLIOTT. The answer to that is "Yes." Mr. Freburger?

Mr. FREBURGER. Yes, my name is Joseph Freburger and I'm Director, Fiscal Division of FmHA.

Mr. ALEXANDER. Well, one further question and I might direct this to Mr. Freburger.

Sir, are you in a position to report to us at this time on this particular status of the Farmers Home Administration bad debt account versus asset account?

Mr. FREBURGER. Yes, sir. We have built into our accounting system a method whereby the gain or loss on the disposition of any piece of property can be determined.

You are referring to property that would be voluntarily conveyed from the borrower back to the Farmers Home Administration, and there is complete release of liability. We would pick it up at the borrower's indebtedness. This, of course, is an asset to the Government. It is a tradeoff for the loan balance as opposed to the Government's investment in the property.

Once the property is finally disposed of, we would be able to determine the total gain or loss.

Mr. Alexander. Thank you very much.

Mr. Fountain. Our first recommendation on page 13 of our December report was that the Office of Inspector General conduct another comprehensive review of the Farmers Home Administration's rural housing operations giving particular attention to the adequacy of corrective action taken concerning the deficiencies noted in our report and in the 1971 review by OIG and to the nature and extent of further corrective actions needed.

I believe Mr. James Scott is here from the USDA Office of Audit. Mr. Scott, can you tell us what is being done by the Office of Audit with respect to our recommendation?

Mr. Scott. Yes, sir. The report of Congress was dated December 12 and we immediately formed plans for our initial response, which was to do add-on coverage during the remainder of fiscal year 1974. We got this guidance to the field in mid-January and we are planning to issue an overall report based on that coverage in August.

The areas that were covered were packaging, manufactured homes, the loss reporting system, and the adequacy of corrective actions taken on our initial overall review and recommendations in the committee report. We have gotten some regional summaries in from the field and I have looked at them. There is very little startling or significant information in these summaries regarding packaging, manufactured homes, or corrective actions.

Now we had one report from the finance office on loan liquidations, acquired securities and accounts receivable and related activities which directly addressed itself to the loss reporting system.

It made a number of recommendations which the Farmers Home Administration agreed with and is in the process of adopting and implementing.

Our second response to your recommendations is the plan for an overall followup audit this fiscal year on our fiscal year 1971 review and the recommendations in the Fountain subcommittee report. This audit will be nationwide in scope and it will include 495 county offices, 20 State office audits, 10 overview or special State office audits, and 10 functional area office audits at the finance office in St. Louis. The man days assigned specifically for the program audits are 1,136 but included in what we will summarize in this program audit is over 9,000 man days for the State-county office finance office audits.

So the program audit that we will be doing in response to your recommendation will involve a total of more than 11,000 man-days.

Mr. Fountain. Are you in a position to state whether or not the resulting accomplishments will justify the 11,000 man days expended?

Mr. Scott. We think they will. In fact the survey for this audit is completed and the guidance document prepared and plans for a nationwide seminar in Kansas City are being finalized today.

We would hold this about the 26th or 27th of August.

Mr. Elliott. Mr. Chairman, you are also aware that the General Accounting Office has a team performing the management survey of Farmers Home Administration in depth, which I am appreciative of because I find that I can get a good management survey for free in that manner.

47-194—75——3

Mr. FOUNTAIN. What has been your experience as to the quality of the work of the people who have been assigned by the General Accounting Office to perform this survey?

Mr. ELLIOTT. Well, I would defer answering that, sir; until I see the results of this study, if I may, because I have no basis to judge that otherwise.

Mr. FOUNTAIN. You have no previous experience?

Mr. ELLIOTT. Well, I have previous experience with the General Accounting Office but——

Mr. FOUNTAIN. But not in this connection?

Mr. ELLIOTT. No.

Mr. FOUNTAIN. Our second recommendation, also on page 13, was that the Farmers Home Administration review its policies with respect to the use of packaging to determine whether the benefits of continued use of this procedure were likely to outweigh the disadvantages. We further recommended, in the event continued use of packaging was considered desirable, that the Farmers Home Administration take appropriate steps to insure that the interests of the borrower and the public are adequately protected.

Mr. Elliott, I wonder if you would briefly describe any action taken in response to this recommendation?

Mr. ELLIOTT. Well, I have included detailed information in my letter to you, and rather than go into that, I would just say simply packaging is used where we have an extensive housing program underway. It is about the only way we can provide rural housing in sufficient quantities, and we insist upon satisfactory quality for the rural people. So we will, as a matter of policy, continue to use packaging with the safeguards that your subcommittee so helpfully pointed out that we should institute.

Now Mr. Elwell can speak to those corrective actions to make packaging a safe and efficient way of going about our business.

If we did not have packaging, in many instances we would severely restrict providing rural housing to people, and this is one method that we viewed.

If you would like, we could chronologically give you the safeguards that we took as a result of your report; however, it is currently in the letter to you. I am mindful of your time, sir.

Mr. FOUNTAIN. You do have those included in the letter?

Mr. ELLIOTT. Yes, sir.

Mr. FOUNTAIN. The letter just received will be made a part of the record and will be carefully examined by the members of the subcommittee and the staff.

[The letter follows:]

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., July 31, 1974.

Hon. L. H. FOUNTAIN,
Chairman, Intergovernmental Relations Subcommittee, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: We offer the following comments as a follow-up to our interim report of February 20, 1974, updating actions taken by Farmers Home Administration in response to the Committee on Government Operations recommendations contained in the December 7, 1973 Eleventh Annual Report, House Report No. 93–705.

These comments refer to items 2, 3, 4 and 5 on pages 13 and 14:

2. Farmers Home Administration (FmHA) has reviewed its policies with respect to the use of "packaging" and has determined that the benefits of packaging applications for rural housing outweigh the disadvantages.

To remove any possible defacto delegation of responsibility for important aspects of the program to packagers, the services provided by the packagers have been limited as necessary. Additionally, certain requirements relating to loan processing have been incorporated in procedures to assure that a packager provides accurate information about the housing loan applicant. Examples: (a) The basic information received from the packager is reviewed by the County Supervisor; (b) The county Supervisor obtains a Verification of Employment form from the applicant's employer and a credit report is obtained from a credit reporting bureau operating in the area where the applicant lives and trades. The employment verification form and credit report are sent directly from the employer and credit bureau to the county FmHA office; they do not pass through the hands of the packager.

The packaging of applications is performed by persons or firms capable of delivering a specific home to an individual family at a specific price. The housing may be an existing dwelling or a home to be built under contract or a conditional commitment. To be eligible for a loan the family must not presently own adequate housing. Furthermore, conditional commitments are issued only in cases where the number of applications on hand or other reliable information indicates that there is a ready market and need for the homes. Considering these restrictions, we believe that most packagers will be working in those areas where the need for housing is the greatest and the market is the strongest, rather than trying to divert their efforts to areas of lesser need.

Farmers Home Administration procedures now require the County Supervisor to meet with the housing applicant family to discuss the requested loan and the family's responsibilities prior to approving the loan. Counseling may cover items such as home and site selection, money management, the necessity of making payments when due, property insurance and tax payments, and other subjects as deemed individually helpful in each family as they become homeowners. Counseling is normally provided during loan processing, at loan closing, and, if needed, after the loan is closed. The necessity of providing adequate counseling, especially when applications have been packaged, has been emphasized in training meetings with field staffs.

In cases where a rural housing applicant or packager provides complete plans, specifications, and either cost estimates or bids to the County Supervisor, they may be accepted without requiring further cost estimates or bids. If, however, the price of the house is excessive, the County Supervisor must reject the proposal and require further bids to be obtained so the housing can be provided with a loan not to exceed the security value of the property. We have no evidence to indicate there is a higher profit potential inherent to the packaging process.

Farmers Home Administration has revised its procedures to require packagers to sign Form FmHA 444–12, "Check Sheet for Rural Housing Loan Packagers," for each packaged application. Also, each applicant family is required to complete and sign Form FmHA 410–4, "Application for Rural Housing Loan (Nonfarm Tract)," in order to receive a housing loan. Both forms include the warning contained in section 1001 of Title XVIII of the U.S.C.

3. County office supervisors and assistants are provided training in the functions and skills of construction inspection. When inspection workload is too heavy to be handled by these employees, we supplement them when possible with either full or part-time temporary or permanent employees who specialize in construction inspection and are titled "Construction Inspectors." We have also engaged construction inspectors on a fee basis but this method is being phased out. We are, however, employing additional inspectors in counties where needed on a part-time basis who are paid for time actually worked.

Farmers Home Administration uses, among other items, a work measurement system to gather statistics to help guide the allocation of personnel resources. We plan to review and revise this system after certain planned procedural changes have been implemented.

FmHA employees are trained by means of three methods: (a) Induction orientation and in-service training; (b) On-the-job supervised training; and (c) Formal training classes at FmHA's Training Center, University of Oklahoma at Norman, and at other Federal and non-government institutions. In addition, an operations review function, conducted by the National Office, also serves as a training vehicle for our field employees.

4. Eighty-five percent of all housing loans are now on monthly repayment schedules. This has provided the means of advising County Offices of delinquencies on a monthly basis with an appropriate three month analysis of delinquent accounts. These monthly reports are expected to aid in the reduction of seriously delinquent borrowers. With full establishment of the Property Management Staff, new reporting techniques will be established to assist in identifying, resolving and monitoring problem accounts.

New reporting procedures have been developed for acquired properties. They contain such items as (1) Unpaid loan balances; (2) All cost incident to the acquired property; (3) sale price received; (4) Net gain or loss; and (5) aging of property in inventory. These reports will be computerized as of January 1, 1975.

When property taken into government inventory is sold, an actual net profit or loss is reported. As previously stated, the amounts owned by defaulted borrowers are realistically uncollectable and should be considered as potential losses.

5. In the opinion of FmHA housing experts there has been overall improvement in the quality of housing construction. We must largely rely on Offices of Investigation and Audit reports, construction complaints, congressional correspondence and borrowers' complaints as our basis for determining improvements, together with reports of our construction inspectors.

We know that construction quality must have improved to some extent by reason of:

(a) Training given at Norman, Oklahoma during the last year; specifically the session held for the Architects and Engineers in May 1974, and the two single family housing appraisal and inspection courses given in January and February 1974;

(b) Minimum Property Standards orientation training given in Nebraska July 1974;

(c) Individual trips (approximately 30) made by members of the Program Support Staff to assist State staffs in technical matters; and

(d) Increased interest on the part of the State staffs on technical matters relative to housing appraisals, inspections and construction as evidenced by the increased number of telephone communications which have developed between the National and State personnel.

We appreciate your continuing interest in the Farmers Home Administration programs as they are improved and become more efficient through developing better management procedures.

Sincerely,

FRANK B. ELLIOTT, *Administrator.*

Mr. FOUNTAIN. I may have a few questions which will enable you to pinpoint some of the points covered.

Mr. ELLIOTT. Yes.

Mr. FOUNTAIN. For example, what assurance, if any, is there that the borrowers in packaging transactions are receiving adequate counseling? Mr. Elwell, do you want to answer that?

Mr. ELWELL. The instructions of Farmers Home require that the county supervisor counsel with the applicant prior to loan approval. Counseling could cover many items such as site selection or selection of the plans or their financial conditions.

Many items are gone over. This will vary depending upon the applicants and their situation. Some of these counseling interviews could be short and some could be quite lengthy. For example, in Arizona, we have an instance where it requires a minimum of three group or public type meetings, to meet with applicants and inform them of the responsibilities of the loan so that they themselves can determine whether they want to proceed. We feel that we have the instructions and the training given to insure this.

Mr. FOUNTAIN. Now, my next question is a part of a question which has already been discussed this morning in our initial discussion and, that is, do you have sufficient personnel in all of your locations to provide such counseling?

Mr. ELWELL. Yes, sir. I believe we do.

Mr. FOUNTAIN. You believe you do?

Mr. ELWELL. Yes, sir.

Mr. THOMPSON. Mr. Chairman?

Mr. FOUNTAIN. Mr. Thompson?

Mr. THOMPSON. One question. Mr. Elwell, are these recommendations new recommendations governing counseling?

Mr. ELWELL. Counseling has always been a part of our instructions. We have wanted to make certain by emphasizing this in training sessions and by clarifying the instructions so this is quite clear. But counseling with the borrower and applicant has always been a part of our instructions.

Mr. THOMPSON. Were these regulations that you just outlined in effect last year at the time of our initial hearings on this topic?

Mr. ELWELL. Concerning talking with an applicant during the loan-making period?

Mr. THOMPSON. Yes.

Mr. ELWELL. Yes, sir.

Mr. THOMPSON. If my memory serves me correctly there were instances where either counseling did not occur or counseling was woefully inadequate. Now what guarantees are there that this does not occur again?

Mr. ELLIOTT. Well, may I address that question?

Mr. THOMPSON. Yes, sir.

Mr. ELLIOTT. Since our hearings of last year we have had State meetings where all personnel of a State were assembled and these points quite clearly stressed. We have had meetings with State directors and the national office where this was again stressed. The fact is, at the time that it was brought to our attention, Mr. Thompson, we were not counseling consistent with our own instructions. I had the observation made that we weren't talking to each other between counties and States and the national office. We have had annual State meetings of most of the States where all of the county people and all of the State people and the national office experts get together and make sure that people understand this particular responsibility as well as others.

Now that will in no way guarantee—although I would like to say that to the extent I could guarantee anything in the human institution—that we will in fact try to sufficiently or adequately counsel all of our borrowers as to their particular and critical needs.

But I would like to assure you that the emphasis is there and they are following the instructions and each one has a different kind of counseling responsibility.

As we pointed out, with some of our borrowers who are either less educated or have less opportunity to be in this circumstance, it takes a lot more counseling. As another matter of fact, when we have a delinquency, counseling continues to try to bring the account current with the borrower's particular finance or personal situation.

Mr. THOMPSON. Thank you, sir.

Mr. FOUNTAIN. Do you now require in all cases a specific warning against false statements on application forms signed by both borrowers and packagers? Mr. Elwell?

Mr. ELWELL. Mr. Chairman, on the check sheet for the packager the warning is on the sheet and our instructions have been revised requiring that the packager sign—well, there has always been a place for his signature, but now the instructions require that the packager sign this.

We have also put the warning on the application. This is not yet in the field but it has been approved and forwarded for publication.

Mr. FOUNTAIN. We specifically recommended on page 14 of our December report that the Office of Management and Budget and the Department of Agriculture take immediate action to permit the Farmers Home Administration to employ an adequate number of construction inspectors.

What action, if any, has OMB taken with respect to the number of construction inspectors FmHA is permitted as far as you know?

Mr. ELLIOTT. They have taken none to my knowledge. The only action is within our responsibility and that is (1) to train our county supervisors and assistant supervisors to perform the construction function as well as augmenting that group of people with approximately 161 additionally "trained or experienced" construction people who can perform that function.

Mr. FOUNTAIN. Do you feel that is adequate?

Mr. ELLIOTT. I feel it is adequate, sir. Again, the problem of broadening the scope of abilities through training is one of critical importance and we are pursuing it.

Mr. FOUNTAIN. In our report, we noted on page 43 that the number of FmHA inspectors has been reduced from 222 in December of 1972 to 105 on July 31, of 1973. I wonder if you would tell us why that reduction was made and who was responsible for it and the circumstances relating to it?

Mr. ELLIOTT. Well, these were basically fee inspectors and that was a part of a civil service recommendation. We are hiring erroneously beyond the period for temporary employees when we should have been using our own personnel—either permanent personnel or permanent part-time personnel. So, we set up a training program and we are doing it that way to reduce the temporary fee inspectors. The inspectors are not the only way to go about managing this.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Mr. Elliott were those fee inspectors or were those temporary employees who were subject to civil service?

Mr. ELLIOTT. One year limitation.

Mr. NAUGHTON. Now isn't it true that some of them had actually been employed for up to 5 years?

Mr. ELLIOTT. That was the point at the civil service. We were in violation of the civil service directive on the employment of temporary people and we had to correct that situation and we did.

Mr. NAUGHTON. Now the fee inspectors on the other hand are people in private industry that you hire at so much per inspection?

Mr. ELLIOTT. I believe that is correct. They are doing the same function but they are financed from different sources. They have the same kind of training and the same kind of people but one is civil service and one is a private person to whom we pay a fee.

Mr. NAUGHTON. As temporary employees, these construction inspectors were not subject to the personnel ceiling imposed by the Department of Agriculture in response to directives from OMB. Am I correct?

Mr. ELLIOTT. Well, let's put it this way. We had an employment of 3,000 "other" of which some were temporary and some were part-time. When you extend the temporary beyond a year, you should have either made them permanent part-time or made them permanent personnel.

You are exceeding the authority when you take their temporary employment beyond 1 year.

Mr. NAUGHTON. So the drop in the number of inspectors—cutting it in half—was caused not by the Department of Agriculture but by the fact that the Civil Service Commission finally woke up to what was going on and took action?

Mr. ELLIOTT. That is correct. We corrected our employment actions. We corrected what the Civil Service pointed out was in violation of their regulations.

When we corrected it, we started the training program for our county supervisors and assistant supervisors to do construction inspection so that we could accomplish that particular function with our own permanent party and part-time people.

Mr. NAUGHTON. These construction people who had been on the job for up to 5 years or so, weren't they mostly qualified people that were doing a satisfactory job and the local people wanted to keep?

Mr. ELLIOTT. Well, yes, I see what you are driving at and the point is, yes, they were qualified people. Had we included them in our permanent personnel under the civil service register, they would have continued to function as such. On the other hand, within manpower resources we had to take the alternative course of training our own people to accomplish this function.

Mr. NAUGHTON. Was any effort made to have the Department of Agriculture or OMB raise the ceilings so that you could have switched these people over to the permanent roles and retained these people with the expertise that they had built up over the years?

Mr. ELLIOTT. The answer to that question is that I can't answer you because I wasn't in FmHA at the time, but I can get the answer to you.

[The information referred to follows:]

CIVIL SERVICE COMMISSION ACTION CONCERNING HIRING OF TEMPORARY CONSTRUCTION INSPECTORS

Retention of temporary construction inspectors has not been dependent upon availability of ceiling. FmHA has ample ceiling for temporary construction inspectors. FmHA has delegated authority to State directors to hire temporary employees whenever need arises.

The Civil Service Commission limits the duration of temporary appointments to one year. However, most temporary needs for construction inspectors are for shorter periods than a year. Most State directors now utilize trained permanent personnel for inspection service, but all directors have flexible options open to them to hire temporary or contract inspectors when required to keep pace with workloads.

No written complaints were received by the national FmHA office relative to Civil Service restrictive use of temporary inspectors. Training had been underway for permanent personnel to serve as inspectors, and authority had also been granted to make use of contract inspectors when needed. Neither were complaints made to Civil Service since it was obvious that the Commission was operating within employment rules. (See Civil Service Report of 1970 herewith on study of the Farmers Home Administration office in Richmond, Virginia.)

[Relevant excerpts from the report follow:]

USE OF TEMPORARY APPOINTING AUTHORITY

In our review, we found temporary employees being improperly placed in permanent construction inspector positions. A request by the State on November 10, to our Interagency Board for extension of three of these appointments required our speaking to the subject separately, without waiting for the completion of this report. A copy of our letter to the State Director covering use of temporary appointing authority generally, and outlining specific, *required*, corrective action on the cases in question, has been reproduced and incorporated as part of this report, in Section IV, Processing Personnel Actions.

* * * * * * *

IV. PROCESSING PERSONNEL ACTIONS

Except for personnel actions having to do with construction inspectors, personnel actions taken comply with laws and Commission regulations.

Reproduced below is the letter mentioned in the body of the report on use of temporary appointing authority and *required* action in specific cases.

NOVEMBER 25, 1970.

Mr. RICHARD A. GOODLING,
State Director, Farmers Home Administration,
Federal Building, Richmond, Va.

DEAR MR. GOODLING: Your letter of November 10, 1970 to Mr. Steven Cohen, Executive Officer of our Norfolk Interagency Board requesting extensions of the temporary appointments of Mr. Aubrey Slade, Mr. Loraine Polk, and Mr. Steven Kovach, FHA construction inspectors, was forwarded to this office for appropriate action as these appointments, and others similar to them, were the subject of intensive review and discussion in our recent evaluation of personnel management in FHA in Richmond. We had intended discussing these appointments in our evaluation report, but your request for extension of three of these appointments to our Interagency Board, requires our speaking to the subject now, separately, without waiting for the completion of our report.

It is our judgment that you have improperly placed temporary employees in permanent construction inspector positions. Apparently, as a result of permanent billet controls, you have developed the practice of filling construction inspector positions through the use of temporary appointments, recouping permanent billets vacated, for use elsewhere in the State field organization.

U.S. Civil Service Commission regulations permit temporary appointments to permanent or continuing positions only when these positions are temporarily vacated for less than one year or when filled by persons 70 years old or older. Your construction inspector positions never met these criteria. Even though it may have been your original intent to make temporary appointments to continuing positions on the expectation that a permanent slot would become available within a year, some of these temporary appointments are being renewed, and some positions are encumbered by the same temporary appointee, for more than one year.

Aside from the fact that continuous employment in the same position under temporary appointment for more than one year is in conflict with Commission regulations, there are other aspects of the problem which warrant concern.

Temporary appointees cannot be reassigned (construction inspector workload has shifted from one area to another yet needed employees cannot, in conformance with Commission regulations, be reassigned).

Temporary appointees are denied health benefits; life insurance; retirement coverage; adverse action protection.

Temporary construction inspector appointees can be protected to a certain degree in a reduction-in-force situation by not cutting out their positions, yet they can be vulnerable to displacement by employees "retreating" from other positions.

At the time of our review you had seven construction inspector positions filled with temporary appointees, and two of these had been employed on the same job since 1968.

Mr. Frederick Doane and Mr. Gene Rhodes were first appointed in February and March 1968. They were reappointed in February 1969 and again in February 1970.

Mr. James Gregory, Mr. Steven Kovach, Mr. Aubrey Slade, and Mr. Loraine Polk were appointed in December 1969; Mr. Fred McConnel was appointed in August 1970.

None of these appointments are in accord with Commission regulations. Consequently, your November 10 request for extension of appointments addressed to our Interagency Board in Norfolk is denied. Additionally, all appointments mentioned here must be converted to permanent appointments or these appointments must be terminated and the incumbents separated.

In the case of Mr. Doane's appointment, that action must be taken within 30 days of the date of this letter. (I understand Mr. Rhodes' temporary appointment has just been converted to a Career-Conditional appointment so no action is necessary in his case). In the other cases, corrective action must be taken within 60 days of the date of this letter. Please furnish me with reports on the actions taken at the end of each time frame.

We are aware the Farmers Home Administration embarked on a huge grant program in the field of rural housing in January 1970 with a plan to hire approximately 400 Construction Inspectors GS-7 to accomplish that program. The FHA plan to give temporary appointments NTE June 30, 1970 to these Construction Inspectors is not related to the positions in question.

I regret having to order such severe action however, these requirements are in accord with governing regulations discussed with and explained to you in the closing conference of our evaluation visit to Richmond, on October 2, 1970.

Sincerely yours,

MILTON I. SHARON,
Regional Director.

Mr. ELLIOTT. On the other hand, I would have to come back to the same central theme. I understand your point, Mr. Fountain, and I hope you understand mine. Unfortunately or fortunately, whichever way you look at it, we have resources of personnel allocated to us that we must work with.

Mr. NAUGHTON. Did you receive any complaints——

Mr. ALEXANDER. Would the gentleman yield on that point?

Mr. FOUNTAIN. Mr. Alexander?

Mr. ALEXANDER. Thank you, Mr. Chairman. General, you are saying that you have people within the Farmers Home Administration that you have to retain because of civil service regulations and that you have to try to retrain these people so that they can perform a function even though they may not be able to perform that function. Is that what you are saying?

Mr. ELLIOTT. No; I am not, sir. I am not. I am saying that when we had carried these inspectors beyond the 1-year time period, we were told that we were in violation of the civil service regulations. That is point one. Point two, I am reminded of General Patton's saying when the horse cavalry was being trained in tanks, that they better get off their horses and into that tank or get out and——

Mr. ALEXANDER. I like General Patton's attitude about the Farmers Home Administration. Do you follow that attitude?

Mr. ELLIOTT. If they can't perform, if they don't take the training or can't absorb the training and don't perform their functions, we then, through personnel actions, would have to replace them.

Mr. ALEXANDER. Have you demonstrated that attitude within the time you have been Administrator of the FmHA?

Mr. ELLIOTT. Well I would hope that I would do so, but I would have to say that is subjective.

Mr. ALEXANDER. What evidence do you have to offer me of that demonstration?

Mr. ELLIOTT. I believe you would have to ask the people who were the subject of it as opposed to me making any statement that would be self-supporting.

Mr. ALEXANDER. Are you saying that you have weeded out people that are incompetent, General?

Mr. ELLIOTT. We are weeding them out as rapidly as we can by attrition or where there are proven inabilities to take the necessary training and perform the functions required of them; yes.

Mr. FOUNTAIN. You mentioned attrition and Mr. Alexander referred to that a few moments ago. Are you able at this time to give us an inventory of how many people you have who might be incompetent, without calling out names, that you may have and how long you are going to have to wait in the attrition process before they are terminated?

Would you be able to give us any idea or approximate information?

Mr. ELLIOTT. Mr. Chairman that is a good question. I would need an answer to it because it is subjective in its nature.

Mr. FOUNTAIN. I realize that.

Mr. ELLIOTT. I believe the point that I can make is that we have had a pretty good turnover and we are getting young and well-trained people now. We have some very capable people who have been with FmHA for a number of years who have absorbed the training and are performing the functions adequately.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Getting back to the temporary construction inspectors, because of the action of the Civil Service Commission, weren't you in the position of letting go people who were already trained while you were in the process of instituting training programs to train other people to do the work they had been doing?

Mr. ELLIOTT. That is self-evident.

Mr. NAUGHTON. Did you receive any complaints from the State directors or from rural housing specialists about the impact of the loss of these people on their ability to carry out their programs?

Mr. ELLIOTT. No, I did not receive any personally. There may have been and probably were complaints. I would not say there were no complaints.

Mr. NAUGHTON. I wonder——

Mr. ELLIOTT. I did not get any because the action had preceded my time in FmHA. On the other hand, I am sure there were complaints and there were concerns. However, the training is being accomplished with these county people and we are proceeding within the restraints of not keeping temporaries on for a period of time beyond 1 year.

Mr. NAUGHTON. We would appreciate it if you would have the files reviewed on that point to see if there were complaints.

Mr. ELLIOTT. I will ask around. I am sure there have been complaints.

Mr. ALEXANDER. Mr. Chairman, one further question on the positive side of this discussion.

General, it's been my observation that many of the Farmers Home Administration personnel at the county level are highly capable people doing outstanding jobs and being compensated far less than they should be because of the regulations that either originate at the national or State levels. I have observed this in a number of communities and have not only personally tried to assess the situation but have listened to others who have observed the performance of certain people at the clerical levels over a period of time.

I might add that there is a certain amount of demoralization among these people when they receive less money than some other Federal employees that do comparable or even less work. Have you taken action in your personnel evaluation of that type of personnel and, if so, what?

Mr. ELLIOTT. Yes; we have. I have asked my own personnel people who have, in turn, asked Civil Service to review county offices for job content that they are now performing as opposed to what they were originally, as opposed to their original responsibilities.

I would state that their scope, type and quality of work has changed considerably from what it was originally, so we have asked for what is called a "desk audit" to determine the grade structure and the adequacy of it.

Mr. ALEXANDER. Are you satisfied that Civil Service can perform that function?

Mr. ELLIOTT. Mr. Congressman, I will put it this way. I have not received the results yet and I would have to defer to see if, in fact, they do.

Mr. ALEXANDER. Well, I will defer further questions until we get the results.

Mr. ELLIOTT. I would be delighted. As soon as we get the results of it I will so inform the subcommittee and you, personally.

Mr. ALEXANDER. Thank you very much.

[The following statement was subsequently provided:]

STATEMENT CONCERNING REVIEW OF FMHA COUNTY OFFICE RESPONSIBILITIES AND GRADE-PAY CLASSIFICATIONS

The Civil Service Commission started on August 26 to review FmHA county office personnel responsibilities and grade-pay classifications. The study initially is in North Carolina, and is expected to be completed by the end of October. The review is not being made on a full-time basis by Civil Service investigators, hence the longer period of time expected to complete the task.

Henry C. Bourne, director of the FmHA personnel division, has asked the Commission to review all county positions, including the supervisor. The purpose is to determine whether the positions as they exist accurately reflect the responsibility now carried. Judgment can then be made whether the positions are properly classified and the pay scale in line with responsibility.

The Civil Service Commission will apply this same audit of county offices to several other States, in order to provide a broad sampling.

In addition to the Civil Service review, Mr. Bourne and Matthew Richter, chief of the FmHA classification branch, visited a total of seven county offices recently in Arkansas and Maryland to check positions of county supervisors, assistants and clerks to determine whether the duties were in concert with job descriptions. Their findings reveal that the jobs were properly described and grade levels properly allocated.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. I have heard reports—and I don't know whether they are accurate or not so I will ask you—that a significant number of Farmers Home Administration employees at the county level are voluntarily putting in a considerable amount of unpaid overtime and working 50 and even 60 hours a week because they feel that they simply cannot accomplish their job in a proper manner with the personnel resources they have unless they contribute to the public a substantial amount of their own time without being paid for it.

Is that an accurate representation of the situation?

Mr. ELLIOTT. The answer is many of these dedicated people do take a great amount of work home with them after their duty hours. As you know, the law requires that anybody who goes over the prescribed period of work day is to be duly compensated with overtime pay. On the other hand, I know for a fact many of them do and have over the history of this organization given a lot of their own time beyond the normal duty hours.

I am also observant, Mr. Chairman, that your able counsel was here until about 10 or 11 o'clock last night, so I assume that all of us have either the need or the capacity to serve over and above the normal call of duty.

Mr. FOUNTAIN. I might say before Jim got married—and he now has two children I believe—he often used to keep me up working late at night and kept himself up. Since he's gotten married and has a family, I don't have that problem quite as much as I did then.

We also recommended that you make a thorough and realistic review of your personnel needs and resources and to some extent you have already touched on this and you may have testified on it in the report you supplied this morning.

Would you care to describe briefly what action has been taken with respect to that recommendation?

Mr. ELLIOTT. Let me put it this way. Three things are being done. One, we are trying to and are achieving efficiencies from different actions that we have taken and I can chronicle them for you for the record. As I pointed out, we have a major effort underway to correct a lot of the procedures and the workload that was caused by it.

Second, we are reviewing the system that we are measuring our work by to correct it. You know, people don't keep their time as well as you would like and we are reviewing to see if we can get a work measurement system that better supports arguments for manpower needs. We are reviewing our manpower workload at the different counties in the different States to see what, if any, adjustments need be made.

I am quite mindful when we talk about adjustments of a county office situation if one should be moved from say State X to State Y because State X's workload was different, that it would raise many problems. I would like the subcommittee and the chairman to be aware of that fact.

We are endeavoring to adjust where necessary to meet workloads and we detail people frequently because the workloads go up and down.

The emergency programs may hit one area of the State or they may hit several States for example. We move people around to deal with that workload. Where somebody may have a higher loan volume in housing, we will move people in on a temporary basis to work on that workload there.

Mr. THOMPSON. Mr. Chairman?

Mr. FOUNTAIN. Mr. Thompson?

Mr. THOMPSON. It seems to me, General, that we have developed somewhat of a paradox in the course of these hearings concerning the whole personnel situation.

It is not exclusive to the Farmers Home Administration. On the one hand we have the difficulties raised by Mr. Alexander concerning political appointees and the potential problems that can develop but on the other hand we have a rather stringent set of civil service requirements that require you to follow the law and to meet the standards of that series of regulations that are established in as detached a fashion as you feel free to do.

Would you care to comment on what your desires would be in terms of flexibility or as an administrator of a major agency to adjust personnel standards, requirements, management levels, et cetera?

Mr. ELLIOTT. I don't believe we can discuss that in a detached manner, Mr. Thompson, because you deal with the realities of the paradox. As an administrator of any agency, you do in the Federal Government, deal in paradoxes. You are constrained on the one hand by a set of laws which were brought about by political requirements and needs of constituents. You are constrained on the other hand by the realities of people and the realities of locations. You cannot deal with the thing in a detached manner. So, really, the answer to your question is that in the real world in which any administrator of Government lives we take what we have and we work with it as best we can. And, the realities that are continually brought upon the job are oftentimes governing. Therefore, I cannot talk about it detachedly.

Mr. THOMPSON. That was a poor choice of words. If you had your druthers, how would you prefer to proceed in this matter?

Mr. ELLIOTT. Well, sir, I don't have my druthers.

Mr. ALEXANDER. Mr. Chairman, would the gentleman yield? Since we are talking about realities, General, let's suppose that I can describe to you a situation wherein there was a clear conflict of interest between the political board that appointed a certain State administrator or administrators and the selfish interest that those members of that board had in appointing that administrator, to wit: the governing board members are in the housing business and do business with the Farmers Home Administration. Now, would the facts of this situation influence your decision? I am prepared to give them to you.

Mr. ELLIOTT. Well, sir, I will accept them. As a fine lawyer that you are, I assure you I will deal with it through the jurisprudence side of the family. If the facts are sufficient, I will take whatever action that it will require.

Mr. ALEXANDER. I had hoped that it would not reach that point, General.

Mr. ELLIOTT. Well, I am prepared to accept anything any Member of the Congress should present to me for due deliberation and fact-finding.

Mr. FOUNTAIN. Would the gentleman yield?

Are you referring to situations which have already been brought to the attention of the agency about which nothing has been done?

Mr. ALEXANDER. Yes, sir.

Mr. FOUNTAIN. But you have already brought them to the attention of the agency?

Mr. ALEXANDER. Well, the situation to which I refer is contained in OIG reports, copies of which I have before me for the States of Arkansas and Mississippi that we have not reached at this point in time and——

Mr. FOUNTAIN. I would like to make this observation—and time is passing away—but I appreciate the position you are in as head of an agency. You do have a lot of built-in situations over which you have very, very little control. As a matter of fact, I happen to believe in fiscal responsibility and there may be times when we don't appropriate enough funds. I may not myself vote for enough funds at times for some of the agencies. I think the time has long since come for the Congress to begin biting that bullet and to do something about an almost $500 billion debt and an annual interest payment of about $31 billion which is more and more frightening to me. I guess it all depends on where you sit as to how you look at these things.

But this is a program which is recognized to be extremely vital, I think, to the general welfare of the American people. I think we are beginning to think in terms of reevaluation of priorities and a reorganization. This is an area in which there will be a concentration of priorities. But I do appreciate the problem you have there. I didn't mean to imply a few moments ago that there should be no political appointees. We are a political institution. Government itself is political. It is the science of government. The point I was trying to make is that I think too often political parties or leaders or Government officials, even up to the White House, make appointments upon recommendations which come to them without really doing a careful job of determining whether or not the appointee is really qualified and has the background and training necessary to do the job for which he is selected. I don't think people would complain much about political appointees in either party in our system, if that were to happen, but as I think was pointed out, so often when one has failed in one area he is passed off to another area. In North Carolina, when some members of the bench were promoted to the Supreme Court, we used to say the lawyers got behind them and promoted them to get rid of them on the local bench, not because they were necessarily incompetent, but because of personality clashes. So we do recognize your problem.

Another recommendation was that you take immediate action to establish an effective system for prompt and accurate reporting of actual and potential housing loan losses. I believe you covered that.

Mr. Alexander, any comments in connection with the subject matter I have already covered before getting into some general and background material?

Mr. ALEXANDER. Mr. Chairman, I think you have done an excellent job and I, in observing the time, would be constrained not to ask any additional questions. I see that it is almost the hour in which we convene.

Mr. FOUNTAIN. We have quite a calendar I understand.

Mr. ALEXANDER. Yes, sir.

Mr. FOUNTAIN. Mr. Elliott, since our last hearings on the subject a year ago, as you have already to some extent pointed out, I am sure a lot has happened in the rural housing program. I think it would be useful if you would take a minute or two at this time, other than what you have already commented on, to describe briefly for the record some of the more significant developments as you see them in the rural housing program during the past year.

Mr. ELLIOTT. Well, I will supply the figures but we are deeply concerned that inflation and the general economy is reflected heavily on the lower income spectrum of our society that is served by the Farmers Home Administration. We have not been able to get people into houses recently, even with interest credit subsidies, because they, for one reason or another, are not prepared or don't want to take mortgage risks. We have seen an increase in the past year of rural rental housing in great quantities which indicates somewhat—and this is speculative—that people who don't have equity positions, young people or poor people or even older people who don't want to take their equity and put it into mortgages, would prefer to rent their dwellings. This is an indication in the housing field that we see in our own small spectrum. Now in the housing world at large, I believe each of you gentlemen is aware of the difficulties of mortgage money and the difficulties of the construction of housing and getting materials and whatnot. Our housing program reflects a part of these problems. But it is heartening that we were able to serve some of our lower economic population spectrum through our rental housing program in rural America.

The other thing we try to do—and I would like to make this point very clear that we did not make a policy change—we made a policy thrust to see if there were some houses that could be rehabilitated at a lesser cost than construction of a new house in order to reach down to this economic spectrum that is being deprived. We have some results, the figures of which I will need to provide you. I am again wrestling with computers and we will have to provide that for the record.

[The following statement was subsequently furnished:]

STATEMENT CONCERNING PERCENTAGE OF FMHA LOANS MADE ON EXISTING HOUSING

Data is not currently available to show the portion of existing housing purchased that needed repair or rehabilitation at time of purchase. Neither is there a comparison of costs of existing versus new housing. These factors are a part of the new computer program thrust, and data will be available in calendar 1975. The computer currently does show that existing housing accounted for 20.9 percent of all housing loans under section 502 in 1973 which rose to 30.2 percent in 1974.

Mr. ELLIOTT. But that is an effort to try to see if we could get a person a decent house at a lower total cost. But the real concern is the delinquency potential, and a growing one is developing or can develop in all of our houses where people have mortgages and where their money is going to feeding themselves. So they have priorities, too.

So, as a general observation, Mr. Chairman, the point I would make is unless we can get this inflation under control, I have an increasing concern for my delinquency rate and increasing servicing problems. I am concerned that if we are extremely tough, we might injure people who we might otherwise safely carry a little while to help get them through it. So I am concerned about it. I am worried about it because our responsibility is to these people.

Mr. FOUNTAIN. Since I asked you to be brief, there may be other significant points you would like to make or develop other than which you have referred to. So, if you care to add to your response, you may do so for the record in response to that question.

Mr. ELLIOTT. Thank you, sir.

Mr. FOUNTAIN. How did the rural housing loan volume in fiscal 1974 compare with past periods?

Mr. ELLIOTT. Well, I would let Mr. Hanson and Mr. Elwell, if they have the statistics, answer that question, and I think we have them here.

Mr. FOUNTAIN. Was it up or down to begin with as a preliminary question?

Mr. HANSON. Maybe I can start to give some of the answers. The volume is down some in 1974. The fiscal 1974 figure for 502 housing was $1.589 million, and this was for the construction or purchase or rehabilitation of 94,371 houses; in 1973, it was 116,705 individual loans for $1,739 million; in 1972, it was 112,182 loans for $1,561 million; in 1971, it was for 108,723 for $1,662 million; and in 1970, it was 68,601 loans for $756 million.

Mr. ALEXANDER. Mr. Chairman, could we get a full copy of the page from which Mr. Hanson is reading and make it a part of the record at this point?

Mr. ELLIOTT. We would be delighted.

[The information referred to follows:]

RURAL HOUSING LOANS (SEC. 502) AS OF JUNE 30

Fiscal year	Obligations		Use of funds				
			Purchase				
	Number	Amount	New	Old	Build	Repair only	Refinanced
1974	94, 371	$1, 589, 883, 200	(1)	(1)	(1)	(1)	(1)
1973	116, 705	1, 739, 590, 143	38, 645	26, 333	38, 325	10, 895	165
1972	112, 182	1, 561, 220, 800	32, 976	26, 127	44, 449	4, 974	262
1971	108, 723	1, 362, 275, 872	22, 425	27, 912	48, 718	5, 913	592
1970	68, 601	756, 351, 941	6, 473	21, 737	32, 421	4, 697	802

1 Not available.

Mr. ELLIOTT. It might interest you to look at the figures. As I say, we can provide them for you.

About $1,600-some million brought us about 94,000 houses in 1974. In 1972—well, we will provide this for the record. You can see what cost escalation is starting to do where $1,600 million brought us 112,000 roughly. These are things that are concerning us because it is affecting the number of borrowers we can take care of.

Mr. FOUNTAIN. In your judgment, what was the major reason or reasons for the change? For example, was the reduction in loan volume due to a decrease in the volume of interest credit loans?

Mr. ELLIOTT. Well, we never decreased the volume available for interest credit loans.

Mr. FOUNTAIN. Didn't you have a decrease in the volume?

Mr. ELLIOTT. We had sufficient money in interest credit loans—the subsidized portion. The market wasn't there. The people did not—and we talked to the people—apparently want to take the mortgage, and yet at the same time our rural rental housing started to show an increase in demand, and we serviced that demand with rural rental housing money.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Was some of this due to a decline in packaging activities?

Mr. ELLIOTT. We have not been able to get an honest fix on that, sir. It would vary. It might have. In other words, a lot of contractors backed out of the market. A lot of them did. And the unfortunate thing, which Mr. Brown discussed, is that some not only backed out, some went bankrupt.

We have in each case someone looking into that. In Mr. Brown's problem we will have somebody down there to make these people whole.

But, Mr. Naughton, your point is correct. The construction industry did back away to a large degree, particularly in rural America.

Mr. FOUNTAIN. That is going to happen, I am afraid, more and more if inflation continues because the man who is willing to take the job finds that a variety of materials are increasing almost weekly and he never knows what the prices are going to be when he goes into a contract. He won't know what the price would be in say 2 weeks from now or 30 days from now.

Mr. ELLIOTT. That is a very difficult problem. One of the basic ingredients in rural America is water and sewer and the need for it. The price of materials has gone up so much now that contractors just cannot afford to make a firm bid. When we do get a firm bid they have added into this escalation. It is making it extremely difficult.

Mr. FOUNTAIN. Is it true the decision was made a few months ago to shift the emphasis of the rural housing program from new construction to existing dwellings?

Mr. ELLIOTT. As I described a little earlier, it was a policy thrust to see if we could maximize the rehabilitation of existing houses out there at an economic cost rather than constructing new housing so that we could reach the economic spectrum that was being priced out of the market.

Mr. FOUNTAIN. When was that decision made?

Mr. ELLIOTT. I have the exact date——

Mr. FOUNTAIN. Approximately.

Mr. ELLIOTT. It was in January of this year.

Mr. FOUNTAIN. Of this year? Did you make that decision?

Mr. ELLIOTT. Well, the Department and myself, yes.

Mr. FOUNTAIN. Was any study made prior to this decision as to the availability of existing housing in rural areas?

Mr. ELLIOTT. You and Senator Clark have a very perceptive observation.

The point here, Chairman Fountain, we made a survey and it was not a survey that you could rely on. So, for approximate figures, they came up with about 500,000 dwellings out there that were thought to be rehabilitatable and that to begin with was not a sure figure. The fact is that we went to the marketplace to actually finance and rehabilitate homes as the best test of the reality of any statistical figure out there and we have so stated.

We did not know and we were unsure. We know something was out there that we might capture at a lower mortgage cost to the lower spectrum income people of our country.

Mr. FOUNTAIN. It is my understanding that State directors were asked to check within their States concerning the availability of vacant and existing housing. Did you get any reports of a scarcity of suitable existing housing?

Mr. ELLIOTT. Oh, yes, sir.

Mr FOUNTAIN. Are you able to supply the number for the record? Did any States report an abundance?

Mr. ELLIOTT. My problem on this one is that I would hate to provide such a survey due to its lack of credibility for the record because it was subjective. In fact, they took their best estimate by sight and sound and it was not a count precisely. I would hate to dignify it as a valid, credible document.

Mr. FOUNTAIN. I can appreciate your position. All you can do is give us the best information you have.

Mr. ELLIOTT. We would be delighted to.

Mr. FOUNTAIN. Fine, give us the information you have along that line.

Mr. ELLIOTT. I would like to qualify it as that. Certain State directors did say there is a scarcity but others said we have some out there.

Mr. FOUNTAIN. Fine. You might also give us a sample copy of some of the replies from your State directors, if that is all right? Pick out the ones which you think are the most representative of the problem involved.

Mr. ELLIOTT. We will try to do that, sir.

[The information referred to follows:]

STATEMENT CONCERNING SURVEY TO DETERMINE THE AVAILABILITY OF EXISTING HOUSING

In response to your inquiry, we offer the following comments concerning a survey which was made to determine the availability of existing houses throughout the country.

A FmHA bulletin was issued to all State directors, asking for an estimate of the number and condition of existing homes, and requesting comments on certain questions relative to existing housing.

A summary of their replies shows that throughout the country there are about 200,000 single family homes vacant or for sale in "move-in" condition. There are another 200,000 such homes in need of repair or rehabilitation—half of which need "substantial" repair—and 100,000 homes needing repair which could not be brought to minimum standard.

In addition, the survey showed 2,000,000 homes in an occupied or not otherwise for-sale category, needing substantial repair or rehabilitation, and a like number in that same category which needed repair, but could not be brought to standard.

As indicated earlier, the figures reported are only estimates. State directors were instructed not to make personal surveys, but rather to obtain the information from the best available sources. Some of the sources used were Bureau of Census, State Planning Bureaus, State Divisions of housing, H.U.D., universities, Extension Service, and multiple listings from local realtors. Therefore, the figures do not realistically reflect the numbers of existing houses in areas suitable for FmHA financing, nor are they limited to "modest type" homes within our financing authorities.

Although the reports indicate a substantial number of vacant, existing houses, over 70% of the States report difficulties in obtaining a present market value high enough to cover the purchase, plus cost of repair and rehabilitation. Aside from cost problems, difficulty in obtaining qualified craftsmen to work on older homes was found to be prohibitive in 90% of the reported cases. In many cases, especially in the South, most of the existing homes were reported to be of such substandard quality that they cannot be brought to standard at a reasonable cost.

We are enclosing copies of reports from several individual State directors. These replies are representative of the overall problem.

[Individual State responses furnished are in app. 19.]

Mr. FOUNTAIN. Does FmHA have any data other than that provided by State directors and what you have discovered by going to the marketplace—and I am sure that is one of the good ways to find out—as to the supply of existing houses suitable for loans either with or without rehabilitation?

Mr. ELLIOTT. No, sir, we do not.

Mr. FOUNTAIN. Is the housing industry in a position to make this kind of information available?

Mr. ELLIOTT. Well, Mr. Hanson?

Mr. HANSON. Mr. Chairman, I don't believe that they have this information for rural America.

Mr. FOUNTAIN. They don't?

Mr. ELLIOTT. This is the problem.

Mr. FOUNTAIN. In our prior investigations, we found some indications—and I might say we are going to have to be quitting in just a few minutes—that builders were citing what was essentially new construction as existing housing. Apparently they did this to escape inspections that normally take place during construction.

I believe it was contended by at least one State director, I don't recall his name because it was some time ago, but this practice was permitted by FmHA regulations. Can you tell me whether this practice is permitted at the present time? If not, have the regulations changed?

Mr. ELWELL. Mr. Chairman, I believe I understand your question.

A builder at one time could have built a house without a commitment. It was not our intention to permit this. Since that time the regulations have been tightened. The builder will have to do one of two things: He will get a commitment from the Farmers Home Administration or he will have an applicant, which will have an approved loan, and he will have a contract. So this way we are working with the applicant and the contractor and making the necessary inspections.

Mr. FOUNTAIN. Good. It is my understanding that section 504 authorized loans for necessary repairs. Is that correct?

Mr. ELWELL. Yes, sir.

Mr. FOUNTAIN. Do you have any figures that you can supply for the record as to the percentage of section 502 funds which have gone for loans on existing houses?

Mr. ELWELL. Mr. Chairman, we do not have the 1974 figures available. We hope to have those shortly from our finance center and would be glad to provide those for the record.

Mr. FOUNTAIN. Thank you. We would appreciate that.

Mr. Naughton?

Mr. NAUGHTON. Is it a fairly small percentage?

Mr. ELWELL. We have asked this question ourselves. At this point, it would be a guess, and I would hesitate to make a guess on this figure. I would prefer, if it would be permissible, to provide the figure, which we can do shortly.

Mr. NAUGHTON. Do you know offhand what the figure was for 1973, the percentage?

Mr. ELWELL. Yes, sir, I believe we have the figure for 1973. I would like to calculate this; this is not in a percentage figure in front of me, but it would be approximately 20 percent. We will be glad to also provide that 1973 figure for you for the record.

[The information referred to follows:]

RURAL HOUSING LOANS [1]

Purpose	1973 Number	1973 Amount (percent)	1974 Number	1974 Amount (percent)
Sec. 502:				
Build	38,325	36.1	28,190	32.2
Purchase:				
New	38,645	40.5	28,034	35.2
Existing	26,333	20.9	31,288	30.2
Repairs		.7		.9
Refinance: Repairs		.02		.01
Repair only	8,149	1.4	6,043	1.2
Total, sec. 502	111,612	99.8	93,671	99.8
Sec. 504	2,748	.2	2,388	.2
Total, rural housing	114,360	100.0	96,059	100.0

[1] Number and percentage of total amount by purpose of loan, fiscal years 1973 and 1974, Farmers Home Administration.

Mr. FOUNTAIN. Well, thank you very much. The subcommittee stands recessed until tomorrow morning at 10.

[Whereupon, at 12:15 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, August 1, 1974.]

FARMERS HOME ADMINISTRATION (RURAL HOUSING PROGRAM OPERATIONS)

(Part 2)

THURSDAY, AUGUST 1, 1974

HOUSE OF REPRESENTATIVES,
INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Don Fuqua, and Bill Alexander.

Also present: James R. Naughton, counsel; and Richard L. Thompson, minority professional staff, Committee on Government Operations.

Mr. FOUNTAIN. The subcommittee will come to order. The record will show that a quorum is present.

We are continuing today testimony which began yesterday. In addition to further testimony from officials of the national office of the Farmers Home Administration we are also expecting to hear from the State directors of both South Carolina and Virginia.

As I indicated yesterday, we expect to place particular emphasis on the procedures used by the national office to keep informed of problems at the local level. Mr. Elliott, I understand you want to make a brief statement.

STATEMENT OF FRANK B. ELLIOTT, ADMINISTRATOR, FARMERS HOME ADMINISTRATION (Resumed); ACCOMPANIED BY JOSEPH R. HANSON, PROGRAM OPERATIONS; L. D. ELWELL, ASSISTANT ADMINISTRATOR FOR RURAL HOUSING; GEORGE SCHLADT, PROGRAM SUPPORT STAFF; JOSEPH FREBURGER, DIRECTOR, FISCAL DIVISION, FARMERS HOME ADMINISTRATION; LUIS GUINOT, JR., DIRECTOR OF COMMUNITY DEVELOPMENT DIVISION, OFFICE OF GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE; WHITSON BROOKS, STATE DIRECTOR, FARMERS HOME ADMINISTRATION, SOUTH CAROLINA; RICHARD A. GOODLING, STATE DIRECTOR, FARMERS HOME ADMINISTRATION, VIRGINIA; AND OBEDIAH BAKER, PROPERTY MANAGEMENT SPECIALIST, VIRGINIA

Mr. ELLIOTT. I would first like to introduce our State director, Richard Goodling, from the Commonwealth of Virginia and also Mr. Whitson Brooks of the State of South Carolina.

My statement is really brief, sir, since I submitted my prepared statement for the record yesterday.

As we noted last year, this is a vast program. As we also noted last year, we have made and will continue to make mistakes in the administration of such a human endeavor with such a population as we serve.

I think the record should show that since the start of this program, we have loaned approximately $9.9 billion to provide approximately 835,000 dwellings to people who would not otherwise have had them. As of June 30, 1974, we had 584,120 active borrowers. The others, who make up the difference from that 835,000, have graduated to other sources of credit.

The number of inventory houses—and this is an old figure, and we will update it for the record—as of January 10, 1974, was 2,963 houses—one-half of 1 percent.

[NOTE.—FmHA subsequently advised that 4,896 housing properties—three-fourths of 1 percent—were in inventory as of January 10, 1975.]

Mr. ELLIOTT. In effect we have served approximately 835,000 families to provide them housing that they would not have had without the FmHA housing program and the numbers of persons, approximately, given dwellings that they would not have had available to them is approximately 3,100,000.

It was of interest to me to note these figures. We are endeavoring to build our accounting system to provide you a businesslike set of data in the future, but in calendar year 1973 borrowers accounts written off—principle and interest—was $5,779,000 and losses from sale of acquired properties was $3 million, a total loss of approximately $8,850,000.

We collected in that calendar year principle repayments of $485 million with interest payments of $288 million.

I believe the positive point needs making that, although we have our problems which were discussed yesterday, many people have been well served by Farmers Home over its history. Although, we have made mistakes both in selection of personnel and training of personnel and perhaps the application of our programs which is a recorded fact here before this subcommittee.

However, I want to first and foremost say, I believe these people have served the purposes of your program well. They will continue to do so. I continue to need the kind of hearings that you do so well for me to receive your advice and for you to keep us alert to the mistakes that we are making, so that we make fewer and fewer year after year. The point needs making though, as we serve this vast country that the Farmers Home does serve, that we will never meet the perfection that would be desired of all men. I hope we improve year by year with your help and I mean it, but I think the record stands this is an amazing achievement by people with dedication.

I stand ready for your questions.

Mr. FOUNTAIN. Thank you, Mr. Elliott. I am glad that you made that statement. I do think that sometimes when we are engaged in the process of determining whether or not a program has been operated properly or efficiently or economically or with adequate wisdom and understanding and all of the other traits we need in the administration of programs which affect the people, we overlook the good that is done and the tremendous number of people who have been helped. I think these figures are impressive, and we are delighted to have them in the record.

Mr. ELLIOTT. Thank you.

Mr. FOUNTAIN. Mr. Alexander?

Mr. ALEXANDER. Mr. Chairman, thank you for recognizing me. I would like to ask the general if he has received the impression from these hearings or from any member of this subcommittee that we in the Congress do not recognize the good that has been accomplished by the Farmers Home Administration?

Mr. ELLIOTT. I appreciate that question. I have not received that impression in any manner or means. I just wished as we go into this, to present some of the very positive sides to augment the very fact that your interest and efforts in the Congress have been supportive and have not been critical. I just wanted to assure the subcommittee that we are aware and we need your assistance in pointing out the errors of our ways and our mistakes. And, we welcome it.

On the other hand, I would be very remiss if I did not point out achievements along with the individual malfunction of the system and people.

Mr. ALEXANDER. Mr. Chairman, if I might amplify just a minute?

Mr. FOUNTAIN. Yes.

Mr. ALEXANDER. Oftentimes, people in general and sometimes in the administration misinterpret the intent of subcommittee oversight hearings and investigations and construe them as personal. Or they construe the efforts and intention of the subcommittee as destructive. They don't understand the intended role of the subcommittee in trying to point out what we, as members of the subcommittee, see as areas that could be improved by various agencies of the executive branch.

I would hope that the general and all of the members here from the Farmers Home Administration view this hearing as constructive rather than destructive. I would also hope that the general agrees with me that there are some very definite areas within his administration that need to be improved and dramatically improved in order that we can go forward to meet the goals for which the Farmers Home Administration exists.

If we are unable or unwilling to meet those goals, if we are unwilling to strive for a better administration, then the reason for the existence of the Farmers Home Administration no longer exists.

Mr. FOUNTAIN. Mr. Elliott, I think for the record we might refer to one of the specific findings and conclusions in our report. It is our first one, in fact, which I think pinpoints the fact that this subcommittee recognizes the good work of this organization, and we say on page 12:

> The rural housing program is basically an excellent program which is making a significant and valuable contribution to the quality of life in rural areas. The program's success has been brought about by the hard work of many dedicated individuals, particularly at the county office level which has direct contact with the people served. The program, and the men and women who make it work, provide resources and assistance which would not otherwise be available from any public or private source in many rural areas.

So I think our own report shows that we try to recognize accomplishments as well as make suggestions for improvement.

Mr. ELLIOTT. We appreciate that, Mr. Chairman. I would like to speak to the point the honorable Congressman from Arkansas made. This agency recognizes the role of the Congress and the role of the individual members of this subcommittee as constructive and helpful, and we appreciate it.

Frankly, the experience of last year with you gentlemen of this subcommittee was salutary on the efforts of management that we have made to improve the program for which we exist. And we intend to improve it to serve all of the people that we are responsible to and for.

This agency and all of its people are responsible to the members of this subcommittee and to this Congress, and we do appreciate the kind of help that you have given me and insight and oversight in the problems that need solving immediately and in the long run.

Mr. FOUNTAIN. Thank you.

Mr. Naughton?

Mr. NAUGHTON. Mr. Elliott, I would just like to make on the public record a comment that I believe I have made privately to you and I know I have made to several other officials on the national office staff.

You are engaged in a program to make loans to people who cannot get loans elsewhere—low-income people, people who have difficulty in obtaining a safe and decent place to live. If you were to make loans only to gilt-edged risks so as not to have any delinquencies or any defaults, you would not be carrying out the program. We recognize that if you are doing what the program intends—that is, making loans to people who cannot get them—there is no way you can escape some delinquencies and defaults.

Our objective is simply to see that any unnecessary losses are avoided and the best possible job is done and you are accomplishing your purpose, and that purpose obviously is not to make loans only to gilt-edged risks.

Mr. ELLIOTT. We appreciate that. Mr. Chairman, one of the more interesting things of the career behind me is we would never have had any aircraft accidents had we not flown at all. This is an old saying. And, if we continue to endeavor to accomplish the programs, we will have accidents and regrettably the human institution is replete with that.

Mr. FOUNTAIN. Let me ask you this before proceeding with the regular questioning. This is just from curiosity and you might not have it, but these 835,000 dwellings, that is over what period of time?

Mr. ELLIOTT. That goes back to the original act of 1949 when the original section 502 for farm dwellings only was mandated and then expanded later in 1961 to include housing in rural areas. At that time, I believe Congress permitted us to loan in towns of 2,500 and increased it to 5,500, and now it is increased to 10,000 in its definition. The present legislation before the Congress is increasing that definition to 20,000.

Mr. FOUNTAIN. Do you have any systematic method, just for your own information and whatever it may be worth, of keeping a compilation of information indicating how many of the original purchasers or their families are in these dwellings?

Mr. ELLIOTT. Statistically, we don't have it.

Mr. FOUNTAIN. You don't have it?

Mr. ELLIOTT. As a research matter, we could perhaps go back and look it up.

Mr. FOUNTAIN. Well, it would take a lot of time, I presume, and I won't request that. I think it would be interesting to see what happened to these dwellings and how many times they changed hands.

Mr. ELLIOTT. I think it would be interesting. I wonder how many times the house I am presently living in, in Virginia, has changed hands, thanks to different administrations and transfers and otherwise.

Mr. FOUNTAIN. Of course, you are living in a different type housing.

Mr. Elliott, is any new authority involved in your present emphasis on existing housing, or were the types of loans you are making previously available?

Mr. ELLIOTT. No, no new authority was required, sir. I made this point yesterday and I think in the record in writing. It was a matter of thrust, of policy thrust, to see if it was at all possible to find existing structures and rehabilitate them at a much lower cost to the borrower as compared to the purchase of a new house. With the escalation of costs for new house borrowers, it would be beyond their earnings to repay a mortgage.

Mr. FOUNTAIN. Switching to a slightly different subject, the Office of Management and Budget advised the subcommittee in January that there would be experimental implementation during fiscal year 1974 of a program for loan guarantees for privately originated, unsubsidized loans. It was their belief that successful substitution of this program for direct Federal housing loans would free staff resources for use in critical areas such as construction inspection in future years.

I wonder if you can give us in a nutshell the success of this program?

Mr. ELLIOTT. Could I provide that, Mr. Fountain, for the record? We have kept abreast of it only to the extent that we know they are doing it. We were involved in the original study. If you will recall, however, we were separated on the interest subsidy in August of last year. We continued our program while HUD is still under that court order and is operating in this new area of trial programing.

I am not familiar with the details. I could supply that to you for the record.

Mr. FOUNTAIN. Fine.

[The information referred to follows:]

STATUS OF PROPOSED FMHA RURAL HOUSING LOAN GUARANTY PROGRAM

The FmHA guaranteed rural housing loan program has not yet been implemented. Draft instructions have been prepared and submitted to the Office of the General Counsel for review and determination of legal sufficiency. When approval from the Office of the General Counsel is received, we will publish the instructions in the Federal Register for public comment.

Implementation of the guaranteed rural housing program should follow.

Mr. NAUGHTON. Perhaps I should read at this point what the Office of Management and Budget told the committee on January 25, 1974. This was in response to our recommendation that OMB and the Department take steps to provide more personnel for operation of the programs:

OMB and USDA have concurred in the experimental implementation of loan guarantees for privately originated unsubsidized loans beginning in fiscal year 1974. Successful implementation of this program would permit substitution of privately originated and serviced housing loans for direct federal housing loans

thereby freeing up staff resources which can be used in critical areas including construction inspection in future years. The successful substitution of Federal guarantees for direct federal lending offers great promise in permitting redirection of existing Farmers Home Administration staff resources.

I think the question is, have you been successful in that?

Mr. ELLIOTT. I missed your question completely, Mr. Naughton. You are talking about the guaranteed housing loans for above-moderate-income families?

Mr. NAUGHTON. Where private industry puts up the money and you simply guarantee it.

Mr. ELLIOTT. We are presently staffing the instructions and the information necessary to go to the Federal Register. It is a legal nightmare, as my counsel assures me. They are reviewing it for legal sufficiency at this time prior to its going to the Federal Register.

We had been hopeful to have had it published in the Federal Register by the end of July. It is now the first of August and we have yet to get that particular thing into the Register and as a program, ongoing.

Mr. NAUGHTON. I gather then you made no loans of this type in fiscal year 1974?

Mr. ELLIOTT. We have not.

Mr. NAUGHTON. Do you see any great promise of freeing substantial staff resources through this program any time soon?

Mr. ELLIOTT. Yes; we think if the lending institutions will, in fact, make the loan, service the loan, and collect the loan, we will reduce the immediate necessity of our doing the same thing with the above-moderate income borrower.

When you ask me the other side of the question, I am getting a little concerned about mortgage money under any lending institution at this present time, when it commits its fund for 33 years.

I can't answer your question until we go to the marketplace with the guaranteed program to prove it.

Now on the other side of your question, we would think where we have guarantees and lending institutions making the loan, and servicing it, and collecting it, that we can reduce the numbers of man-hours as compared to a direct insured loan, yes.

Mr. NAUGHTON. Of course as long as loans are extremely difficult to get in urban areas where credit has historically been much more available than rural areas, isn't it rather unlikely you are going to be very successful in inducing private enterprise to send money out to the rural areas?

Mr. ELLIOTT. That is a perfectly valid question although the rural area deposits were up due to the $32.2 billion in farm income last year. So the deposits are up considerably. We would hope there is money to be invested by those institutions with increased deposits for lending in rural areas.

I don't know, as I read the flow of money to various central markets in Chicago and New York, whether the money will in fact be available for these long-term guarantees when short-term interest rates are so attractive. I can't answer the question, Counselor, until we do, in fact, go to the marketplace, as to how much mortgage money will be available under the guarantee program.

I could answer that we envision and will be able to chronicle the amount of man-hours it takes us to make a direct insured loan as opposed to servicing and making a guaranteed loan.

Mr. FOUNTAIN. I would like to get into some questions on the subject of construction quality.

First, are there any questions in these areas by the other members? Mr. Fuqua?

Mr. FUQUA. No.

Mr. FOUNTAIN. Mr. Alexander?

Mr. ALEXANDER. Go ahead.

Mr. FOUNTAIN. Have there been any significant changes in Farmers Home Administration procedures designed to insure that the houses it finances are properly planned and constructed since our last hearing? Describe briefly what has been done.

Mr. ELLIOTT. If I could have Mr. Elwell describe the updating of the instructions both in terms of inspection and instructions as to minimum property standards as well as site development? In fact, when we first started out in rural America we lacked the sophistication to recognize that single dwellings and then multiple dwellings all of a sudden really needed an infrastructure of roads, lighting, and sewerage and water. The industry and ourselves at that point in time were, in fact, not geared to it.

Now we have increased in our sophistication and of the knowledge of the errors we have made. So, if Mr. Elwell can bring you up to date on the technical problems——

Mr. FOUNTAIN. Mr. Elwell?

Mr. ELWELL. Mr. Chairman, there have been two significant changes in our regulations. On February 20, 1974, we issued an instruction, or rather revised our instruction, to require a second inspection for manufactured homes during the erection stages where a lot of the problems do occur. As of today, August 1, 1974, the new revised Minimum Property Standards (MPS) that HUD and FmHA are following are in effect and these have been issued to our field people.

Mr. FOUNTAIN. Do you regard your present procedures as substantially satisfactory?

Mr. ELWELL. Yes, sir.

Mr. FOUNTAIN. You don't foresee the need for any other changes at this time or none are planned?

Mr. ELLIOTT. None in instructions. And, again, I am extremely aware of the need to educate our people to assure that we get good construction for our borrowers. We have made this perfectly clear to all of the people who are building for us either in manufactured homes or erecting what they call stick built or conventional homes.

Mr. NAUGHTON. Are there significant changes in the new minimum property standards or is it just more updating and consolidation?

Mr. ELWELL. Mr. Elliott, I believe George Schladt would like to respond.

Mr. ELLIOTT. Would you like a technical answer? I have George Schladt, our program support chief.

Mr. SCHLADT. Very briefly, in single family housing there is very little change, but for the first time we have standards for multifamily housing.

Mr. FOUNTAIN. When were they adopted?

Mr. SCHLADT. Today they became mandatory.

Mr. ALEXANDER. Mr. Chairman?

Mr. FOUNTAIN. Mr. Alexander.

Mr. ALEXANDER. Mr. Elwell, would the inspection procedure that your described as adequate—and I don't question that and have no reason to question it—for single and multifamily housing, equally apply to the loans that were made this year for rehabilitation under the rehabilitation program?

Mr. ELWELL. When we make a loan for rehabilitation, the same type of inspection would be required. We have a minimum of three inspections required. In some cases, the number of inspections could be considerably more. So the answer is whatever is required to make sure that the construction is completed in accordance with the plans and specs.

Mr. ALEXANDER. One further question. Do you have adequate personnel to administer those inspection regulations?

Mr. ELWELL. Yes, sir, I believe we do. I think as Mr. Elliott has pointed out, it is a continual job of training, which is ongoing.

Mr. ALEXANDER. Thank you.

Mr. FOUNTAIN. I am trying to find a point in my outline here where I can eliminate some items because of the limitations of time and——

Mr. ALEXANDER. Mr. Chairman.

Mr. FOUNTAIN. Mr. Alexander.

Mr. ALEXANDER. I might be able to abbreviate my inquiries if I could have a few minutes on the rehabilitation loan program. I just have some general questions.

Mr. FOUNTAIN. Go right ahead.

Mr. ALEXANDER. I notice, General, under your 1974 estimate of low-income housing loans for repairs and rehabilitation that you estimated that you would make about 43,575 of those loans. Is that correct?

Mr. ELLIOTT. That was a guesstimate.

Mr. ALEXANDER. All right, sir. Now that you have had some experience during the—well, first of all, was that the fiscal 1974 figure?

Mr. ELLIOTT. Yes, sir.

Mr. ALEXANDER. Now that fiscal 1974 has ended, could you tell me how many loans you did make under repairs and rehabilitation?

Mr. ELLIOTT. We closed out the books as of the 30th of June. I mentioned my computer problem yesterday. We can provide that information for the record though, sir. Presently I can't even give you an estimate. As a matter of fact, over the years we have been making loans on used housing, for example, housing that is in stock and could be rehabilitated. This was an emphasis though to see if we could find more than people had been originally looking for at a lower cost. I can't give you the figure until I get my books on this thing closed, and I couldn't even give you a fair estimate.

Mr. ALEXANDER. Well, some old housing is much better than most new housing, if you can get old housing that is well constructed. My question bears on your statement yesterday that this was not a change of direction but that it was an attempt to determine whether or not these types of loans would fulfill the need for low-income housing in rural areas at a lower cost than could be achieved through new low-cost housing in rural areas.

You say you can't estimate, but would you say that the loans that you made would be less than half of that amount or more than half?

Mr. Elliott. Well, we are guessing about 20 percent.

Mr. Alexander. In other words you made about 8,000 to 10,000 for repairs and rehabilitation?

Mr. Elliott. Well in 1973 we had loans for 116,075 houses; of which purchase was new, 38,645; and the old was 26,333. And then we had 10,897 that were repair only.

The figures for 1974, I regret, I do not have for you. I will give them for the record comparable to this.

Mr. Alexander. All right.

[The information referred to appears on p. 392.]

Mr. Alexander. So, one further question. In the event that your 1974 estimate appears to be significantly lower than that reflected in this record, in other words 25 percent, then would your 1975 estimate for repairs and rehabilitation of low-income housing loans reflect that change in the actual figures?

Mr. Elliott. I understand your question. The figures—the way we arrayed them was mainly to point out the emphasis. We did not turn any borrower down when the application came in because of the rearrangement of the funds to try to focus on rehabilitated housing. We don't know how many people we served with rehabilitated houses right now, but if it should occur that the market isn't there, then we would rearrange the columns to emphasize where we can provide housing.

Mr. Alexander. All right. Now, so I fully understand you, in other words, if you only made 50 percent of your 1974 budget estimate and you determined from that fact there is only 50 percent of the need that you originally determined, then your 1975 estimate will be changed accordingly?

Mr. Elliott. Yes, sir. We would go back and have it readjusted. These are statistical arrays for loans. They are not obligation authorities.

The point that I would like to make is this. When we saw the market was not absorbing in the subsidized column for new and/or rehabilitated housing, we did move some of that loan authority over to rural rental housing where the market was beginning to show a significant demand. Again we believe, but can't prove, that the market was reflecting that people were concerned about getting mortgage money or didn't want to get it and take an equity position but were willing to go for rental where they can control their costs.

Mr. Alexander. Yes, sir. Just one further statement.

General, I asked this and pursued this line of questioning because this, as I understand it, is a discretionary item within the Administrator's budget authority. I have been had so many times up here in Congress that I can't help but pursue this line of inquiry in order to determine the effect of the policy of the Farmers Home Administration with reference to this particular question. Thank you very much. Thank you, Mr. Chairman.

Mr. Elliott. May I make a point?

Mr. Alexander. Yes, sir.

Mr. Elliott. The policies that the Farmers Home Administration follows are the policies of the Secretary of Agriculture. All policy decisions are referred to him before we pursue a course of action.

Mr. ALEXANDER. Well, the general is not saying that the last statement would alter his previous statements with reference to the 1975 estimates on the discretionary authority of the Secretary of Agriculture for low-income housing loans for repairs and rehabilitation, is he?

Mr. ELLIOTT. No, it doesn't change my statement.

Mr. ALEXANDER. Well, thank you very much.

Mr. FOUNTAIN. I am going to leave construction quality for a moment. We may submit questions, Mr. Elliott, for you to supply the answers to the record. I will leave that unless some other member has a specific question he wants to ask?

I am going to let Mr. Naughton ask some questions in the area dealing with reporting at this time.

Mr. NAUGHTON. Would it be fair to say that the reports showing whether or not borrowers have made their monthly payment when the payment was due are probably the most important single indicator that the national office has—and the county office, too, for that matter—concerning problem loans?

Mr. ELLIOTT. It would be certainly fair to say that. One of the interesting points of that report is this. A year ago we decided and we have converted as many as up to 85 percent of our single family housing to monthly payments because, for some reason or other over the history of the program, they have done it on annual payments basis. You could be delinquent all year and paid up on the 31st of December and not be delinquent. This in fact didn't show our problem cases on a current enough basis. We now have 85 percent of our housing borrowers on monthly payments which indicates a condition of delinquency a lot sooner.

You are correct that a delinquency indicates the need to pay attention to that account, to service it, to see that it stays healthy.

Mr. NAUGHTON. Do you normally have significant problems with borrowers who voluntarily make their payments on time without any prodding from you?

Mr. ELLIOTT. Well, we'll put it another way. We are using exceptional delinquency reporting for our county offices and are now saying that if you don't have the name of a person on a delinquency list and he or she is paid up, then your job should be to concentrate on an exception basis in your work plan to see that we service our delinquencies and keep them healthy.

Mr. NAUGHTON. Yes, but what I am saying is that the borrowers who voluntarily make their payments without prodding usually don't account for very much of your problems, do they?

Mr. ELLIOTT. No. Thank you very much, that is a good way of putting it. I wish they all were like that.

As I tried to point out yesterday, Mr. Chairman, the whole economic situation is of concern to me. We have been reaching around for 1 or 2 or 3 percent interest to help people rehabilitate houses. We have been trying to find something we could make available at lower costs to the people out there to provide them housing.

As we watch this cost of living and a few things getting higher and higher, this delinquency situation is going to be a worrisome problem.

Mr. NAUGHTON. The point I am making, of course, is that the first indication that you have that something may be wrong, that you may have a problem, is when that check doesn't arrive when it should arrive. It may be a minor problem or it could be the start of a major problem.

Mr. FUQUA. Just one question. Has your delinquency rate increased in the last 6 months?

Mr. ELLIOTT. Let me check on the figures. The fact is that through a lot of management effort by the States and counties over this past year we were able to make it come down, but it is going up in housing.

Mr. FUQUA. I was thinking about the overall economy and not necessarily the policies of FmHA.

Mr. ELLIOTT. The farm ownership and the farm operating have been coming down because of the improved incomes out there. The facility loans and other loans have been showing a reduction.

The housing loan is starting up. That portfolio is starting to show a creeping increase. However, in the first half or first 9 months of this year, through an awful lot of effort, they have brought delinquencies in housing and inventory down, but the recent turnaround is beginning to show an increase in delinquencies.

Mr. FUQUA. What is the percentage rate for delinquencies in housing?

Mr. HANSON. As of December 31, our records showed a 16 percent overall delinquency, nationally. Now remember, this indicates the one-time-a-year payment due date of January 1. So by June this rate would show considerably less.

Mr. FUQUA. You don't have the June 30 figures?

Mr. HANSON. Not this year's. Now last year on June 30 it was down to 5 percent. However, I think, last year, as of December 31, 1973, it was something like 14 percent. So there is a creeping increase.

Mr. NAUGHTON. Mr. Hanson, I have some figures for January 1 which were a little bit different than the ones you have given me. I think as of January 1, 1972, it was my impression that the rate was around 12 percent.

Mr. HANSON. It might have been.

Mr. NAUGHTON. As of 1973, it was 15 percent and it was my impression it was either 18 or 19 percent in 1974.

Mr. HANSON. Well, I think we had the correction in this year's or in the 1973 figures, rather, after you got that 18 percent. The final figure I believe was 16 percent.

Mr. NAUGHTON. Would the relationship to the prior years be the same? In other words, it has increased significantly each year?

Mr. HANSON. At that time; yes.

Mr. NAUGHTON. Now most loan payments are made by the borrower to the finance office in St. Louis. How soon does the county office learn when a payment has not been made to St. Louis?

Mr. ELLIOTT. Mr. Freburger?

Mr. FREBURGER. About 65 percent of all the payments are made in St. Louis. The other 35 percent are made in the county offices. Our plan is to notify the county office 15 days after a payment is due that the borrower has failed to make the payment.

Mr. NAUGHTON. How long has it taken up until now?

Mr. FREBURGER. We have been holding around 20 days. You do run into a problem at the end of the fiscal year because demands upon the system are great and we have fallen behind.

Mr. NAUGHTON. Was there an earlier time when it might take as much as 2 or 3 months before the county office learned from St. Louis that a payment had not been made?

Mr. FREBURGER. That is very conceivable especially after the end of the calendar year in early January or February; again, because of demands made upon the system. Adjustments are being undertaken to correct that situation.

Mr. ELLIOTT. As I pointed out, Mr. Naughton, we have the review underway of the system to correct the situations that you observed. That is one of the ongoing management improvements we expect to attain within this next year.

Mr. NAUGHTON. During our previous hearing, we were advised that reports are prepared quarterly for the national office which show delinquency rates by State and county. Prior to the last few weeks, did anyone in the national office have the job of analyzing that list with the view of determining which counties might have serious problems and investigating further with respect to conditions in those counties?

Mr. HANSON. No, sir, we do not have the county information normally at the national office. This is left to the State director and his staff.

Mr. NAUGHTON. But there is a quarterly computer run I understand which is mailed and sent in and which has that information?

Mr. HANSON. Yes, sir.

Mr. NAUGHTON. Did these reports indicate the number of loans which had been delinquent for long periods of time, as well as the total number of delinquent loans, so you could distinguish the cases where a payment was 5 or 10 days late from that which was 6 months or a year late?

Mr. HANSON. Mr. Naughton, that is a very key question, and this is one of our big problems. We have not had a good aging system, so to speak—aging of delinquencies. We will have that with the system now being developed.

Mr. NAUGHTON. We were also advised during our previous hearing that the semiannual report showing property in inventory, by county, which of course would result from voluntary conveyances or foreclosures, was prepared for the national office.

Did anyone in the national office, up until the last few weeks, have the job of analyzing that report in order to identify problem counties and make further investigation as to what was wrong and what should be done about it?

Mr. HANSON. The new division created within this last 6 months—that is, the property management staff—will have that and has that responsibility today. Prior to that time, no.

Mr. NAUGHTON. In addition to the two reports that we have just mentioned, Mr. Hanson, were any other reports received by Washington on a regular basis which were intended to identify localities; that is, the county office and the local office having serious problems either actual or potential?

Mr. HANSON. Not as a good organized system or not on a good systematic basis. However, we have had, of course, all kinds of individual reports from State directors. In our field investigations, we have uncovered these kinds of problems, but systematically, no.

Mr. NAUGHTON. Obviously, you get audit reports of individual counties, and those are reviewed at the national office level. Prior to the establishment of the Property Management Division, was there anyone in the national headquarters who had the job of assembling complaints or other data indicating actual or potential problems in particular localities, aside from the audit and investigation reports, in a single location so that you could try to keep track of which were your problem counties rather than the overall problem in the State?

Mr. ELWELL. Mr. Naughton, in answer to this question and also maybe the previous questions, the establishment of the Property Management Division has been an effort to centralize and bring focus on these problems. Prior to that time, no specific individual had the assignment by Mr. Elliott or whoever. However, this role has been assigned and carried out by the Single Family Loan Division or the Multifamily Loan Division. Staff members in both of those sections certainly review the inventory figures.

For example, in multihousing, we do have a report that indicates to me, as a director, a problem case and a 5-year history of that particular case. It is easy then for me as a director of the Multifamily Division to pinpoint that a problem case exists in this State.

We have over a period of years written to our State directors concerning these specific problems and asked for the reason of the delinquency and when it will be corrected and how soon and what actions would be taken.

In single-family housing, inventory has been a problem. We have looked at it from a staff situation. Field trips are planned and letters are written to make certain that we do follow up on such items.

Mr. NAUGHTON. With respect to multifamily housing, not single-family housing, would you be able from the records in your office at the present time to give the subcommittee, for the record, an identification of 5 or 10 counties in the United States which you feel have probably the most serious problems in connection with their program for whatever reason, together with a very brief analysis of what those problems are and why you think they happened?

Mr. ELWELL. Yes, sir.

[The information referred to follows:]

COUNTIES WITH TWO OR MORE RURAL RENTAL HOUSING OR LABOR HOUSING LOANS BEHIND SCHEDULE

We have reviewed our records on rural rental housing loan borrowers and labor housing borrowers to identify counties that may possibly have problems in connection with these programs. Our latest information as to active borrowers who have not made their scheduled payments for the year as of January 1, 1974, indicates that no county has more than two delinquent accounts in these loan categories, and only six counties have as many as two loans behind schedule. These six counties that were involved on that date are listed by state and county. Some of these delinquencies were of a temporary nature.

State	County	Type of loan
Arizona	Cochise County	RRH
Illinois	Peoria County	RRH
Kansas	Jewell County	RRH
Missouri	Shelby County	RRH
New Jersey	Cumberland County	LH
Ohio	Morrow County	RRH

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In reviewing delinquent accounts, we find that lack of management and uncooperativeness on the part of the borrowers, construction delays which result in lack of income, rental charges that are too high or too low, and overbuilding that results in vacancy are some of the factors that cause delinquencies. As an example, the two RRH loans listed in Jewell County, Kansas, were two of the first RRH loans made within the state. The town in which they were located was hard hit economically when the three main industries closed.

Mr. NAUGHTON. Now, with respect to the single family program, would it be fair to say that until these recent developments, the national office concentrated on reviewing overall statistics for statewide operations of the housing program and left it essentially up to the State offices to keep track of what was happening at the county level?

Mr. ELWELL. Yes, sir. I believe that is correct.

Mr. NAUGHTON. The regular statistical reports give statewide figures showing the number and percentage of delinquent loans. They also show the number of loans in each State which have been liquidated through foreclosure or through a voluntary conveyance by the borrower to Farmers Home Administration. Of course, we all understand that that the voluntary conveyance and foreclosures represent loans which did not work out as far as the initial borrower is concerned, and you got the property back to dispose of it in some other fashion.

In addition to the two categories of voluntary conveyances and foreclosures, you also receive periodic statistical reports which give statewide figures showing the number of loans which have been transferred from the original borrower or succeeding borrower to someone else.

Is it true the transfer category includes both paid-up loans which are transferred because the borrower is moving or wishes to sell his house or some other reason which involves no loss to the program, and also includes liquidated loans in which you are using the transfer as a means of liquidating that loan rather than taking it into inventory and reselling it?

In other words, it includes two entirely different transactions. One is a normal transaction where someone sells a house and a borrower assumes the loan and the second category is where the loan has not worked out, but rather than take it into inventory through a voluntary conveyance and foreclosure, you arrange for a transfer and avoid that process——

Mr. ELWELL. Mr. Naughton, I think the reason for a transfer may not be just a bad loan. In fact, in the rural area, credit is hard to obtain.

A person leaving the area for some reason and needing to sell his house may not be able to find a borrower who has outside credit and so forth to make a sale. In order to liquidate his obligation to the Government and to move to another location, a transfer is probably the best way for him and the Government to dispose of the property. I do not or cannot at this point say that this is the prime reason for transfers but, in my judgment, it would be the prime reason for the bulk of our transfers. For justifiable reasons where families need to leave their homes, and we want to help them, a transfer of the property to another eligible applicant is the most logical way of handling the problem, so that the property is occupied and the loan is being paid.

Mr. NAUGHTON. But the significant thing about that kind of transfer is that it does not involve any reasonable likelihood of loss to the

Government. You have a good loan, in other words, paid up, it is current, and you simply transfer it to someone else who is also eligible for a loan and he takes over the payments. That is one category.

But doesn't the transfer category also include a dissimilar type of transaction in which you have a delinquent loan—and maybe the house has been abandoned—or you have a bad loan on your hands? Rather than go the foreclosure or voluntary conveyance route, you manage to find someone else who will assume that loan or take over that house and you accomplish that by means of a transfer thereby, in effect, liquidating a bad loan through a transfer, rather than a voluntary conveyance or foreclosure.

Mr. ELLIOTT. Well, let me answer that question, please. I think that is pretty good business if they have been doing that. On the other hand, if the subcommittee would want a different statistical breakout to reflect that, we can do it.

If I can take an abandoned property or a delinquent account and transfer that unit to a borrower who will carry that property and return investment to the Government, I think that is good business. On the other hand, if we have statistically failed to provide the kind of data of the nature necessary for the purpose of this subcommittee or for management, I would be delighted to see if we can get a creditable breakdown in the system we are developing.

Mr. NAUGHTON. I don't want my questions construed as being critical of liquidating these loans by transfer because that may very well be the most appropriate way to do it. What I am raising is the question as to the usefulness of a lump sum transfer statistic, which includes two entirely different types of transactions, both good loans and bad loans.

As far as I am able to determine, it is not broken out in any way so you can tell how many are of one category and how many are of another.

Mr. ELLIOTT. Counselor, we would be glad to look at that kind of statistical breakout for the benefit of the subcommittee. We have no problem with that.

On the other hand, it is beneficial if I can transfer a bad loan into a good one and provide for the Government. Also, if I can keep a family in a house by that method, which would not ordinarily have one, I would be delighted to do that, too, as a matter of practical business and humanitarian purposes to be served.

If the statistical breakout is at issue, let us study that and provide the difference. A transfer is a transfer to me.

Mr. NAUGHTON. Am I correct that these two different types of transactions are lumped together in one report?

Mr. ELLIOTT. Yes; you are.

Mr. NAUGHTON. Does anyone have a reliable estimate as to——

Mr. FOUNTAIN. Let me ask you this. Do you disagree with Mr. Naughton that it would be helpful and meaningful to separate the two and have statistics as to both types?

Mr. ELLIOTT. My technical people see no reason for it because the Government doesn't sustain a loss under either method of transfer; one to a good borrower who wants to get out of his house and go somewhere else, or a delinquent or abandonment situation where, in fact, somebody comes in and picks up the cost of the mortgage and pays interest and principle.

So the point is we don't think it is necessary, but that is from our viewpoint. If you, as the chairman of the subcommittee, feel it is an essential breakout, why we can go that route.

Mr. FOUNTAIN. In the first place I think it is interesting information to have, Mr. Naughton, but from the standpoint of the operation of the program why is it necessary?

Mr. NAUGHTON. Well, it seems to me that if you lump all transfers into one category and don't distinguish those which involve delinquent loans or loans where you have a problem, that it in effect hides the number of bad loans that you actually have because one category——

Mr. FOUNTAIN. We can always go back and locate it.

Mr. HANSON. I guess we all have some comments on it, if we may?

Mr, FOUNTAIN. Go ahead.

Mr. HANSON. I want to be sure that we understand now.

Mr. NAUGHTON. I shouldn't use the term "hide" because I mean "does not disclose."

Mr. HANSON. Let's remember now that this loan, if it were delinquent, when we get a good reporting system and a proper reporting system on our delinquencies, will show up as a delinquent loan. So it is already reported as a delinquent loan. The other thing I wanted to make certain of is that everyone understands that we also have the voluntary conveyance to the Government. Now, that is a different subject, right?

Mr. NAUGHTON. Yes, sir.

Mr. HANSON. So, we are talking only about transfers from one borrower to another in this discussion. So, it is difficult for me to see the reason for your request.

Mr. ELLIOTT. For the purposes of the subcommittee's time, we will be delighted to entertain any statistical requirements——

Mr. FOUNTAIN. Is that difficult to compile?

Mr. ELLIOTT. As we are working up the new system, we would incorporate it, if that is the wish of the subcommittee, for purposes of analysis.

Mr. FOUNTAIN. I can see how it would be helpful in terms of the total analysis of the operations.

Mr. ELLIOTT. On the other hand, it is not in the present system that we consider needs updating and modernization. But we would and could research it for the purposes of the subcommittee, and we would do that.

Mr. FUQUA. If the gentleman would yield? I would think for your own purposes such a compilation would give you an opportunity to see how good a job you are doing in collecting the delinquent payments or transferring loans so that the program remains solvent.

I think you can glance at the statistics just as you would for accounts receivable or bad debts. You can determine whether your collectors are doing their jobs.

Mr. ELLIOTT. Mr. Elwell?

Mr. ELWELL. Mr. Chairman, in a transfer, we can transfer a loan delinquent; however, we try to transfer loans on a basis where they are brought current either by the seller or by the buyer. We will transfer it delinquent, if there is a reasonable prospect that this new buyer can bring the account current within a reasonable period of time.

We consider a year a reasonable period of time. Otherwise, at that point we would want to reamortize the loan and put it on new rates and terms, which at today's rates and terms for us would be 9 percent. Now this does pose a problem, if the loan is old. It may bear a very favorable interest rate if it is old. At that time, then, the buyer will make every effort to try to assume it on the old terms and try to bring the account current. But we do have transfers where we reamortize the loan and bring it to the new rates and terms.

Mr. FOUNTAIN. Just a point. I don't see a reason why John Doe should come in and buy a house for the first time and get it at a low interest rate and then have Peter Jones come in and buy a new house and pay the high interest rate. I think there is some justification for your new approach and for your amortizing it and treating it as a new loan rather than encouraging the transfer at the old interest rate.

Mr. ELLIOTT. Well, don't do that to me, sir. I bought a house on a transfer on the commercial market at a very favorable interest rate. I would have hated to have bought it on a reamortized basis with interest rates being what they are at this time.

Mr. FOUNTAIN. Well, in the private field I think you are right. In the Government field, I don't know. It seems like a discrimination.

Mr. ELLIOTT. However, we are still trying to reach the low-income people to the extent we can protect their financial position and still recover for the Government, so it is both equitable to them and in the interest of the Government if we can make a sensible transfer and recover the delinquencies.

Mr. FOUNTAIN. I realize you have to take into account a lot of things like whether you can get rid of the house or not in the first place.

Mr. ELLIOTT. On the other hand may I repeat for the subcommittee that we are perfectly willing to discuss and willing at the time of our system's design to look at those kinds of things that Mr. Naughton is bringing out. We are willing to look at the things you think are in the best interest of everybody and see if we can't accommodate them.

Mr. NAUGHTON. Let me just outline a hypothetical situation that could occur. I am not saying it has occurred or would occur, but I think it could under the current system of reporting transfers.

Let's take a county supervisor that has some really bad loans. Let's say he has 10 of them and they are all delinquent for a year and each party owes $1,000. He is getting pressure to take care of that situation. He wants to get the State and national office off his back. So he goes out and finds 10 additional people to assume those loans and sign a note for the $1,000 indebtedness, plus the original amount. The problem is they are not really people who are suitable risks; there isn't much likelihood, in other words, that they will repay.

Anyhow, he puts the transfers through. So, he started out the day of the transfer with 10 delinquent borrowers, each owing $1,000 and each loan delinquent for 1 year. He transfers those loans to 10 subsequent borrowers, none of which there is any reasonable expectation will ever make one single payment. But instead of having 10 delinquent loans which are delinquent for a year, at that point in time he has 10 loans which are current and they are for $11,000 instead of

$10,000. He has wiped out his indebtedness. Of course, later on those people will not pay 1 cent, but they do not show up as transfers. From that point on they are not traced back to the original loan.

So he has, in effect, managed to wipe out his delinquency through that transfer.

Now going on——

Mr. FOUNTAIN. Did you follow it?

Mr. ELLIOTT. I followed him, Mr. Chairman, and it is a very interesting line of questioning.

Mr. NAUGHTON. As of now you do not keep separate records to show, when a borrower gets in trouble, whether it is a transfer loan or whether it is an initial loan?

Mr. ELLIOTT. No, we don't, but would be delighted to study that statistical breakout for the benefit of management.

Mr. FOUNTAIN. You might take a look at it to see how much trouble you think it would be to analyze, from your own point of view, what you think the advantages might be.

Mr. NAUGHTON. It is my understanding that it is possible to tell from periodic reports on houses and inventory whether or not a particular house in inventory is occupied or vacant or at least what the records show as to that.

Has the national office made any attempt to obtain periodic reports on the numbers of Farmers Home Administration homes in each State and county which are vacant that have not yet been taken into inventory?

Mr. ELLIOTT. You know, one of the things about vacancies is this, and I think I can answer it this way. No, we do not break it out that way. We have it on a survey. We didn't realize abandonment in the proportion it occurred previously, and part of our system will report that as we bring it up to speed.

People walk out of a house. Unless we are out in that rural area looking, it can be vacant for a week or 10 weeks before we are really aware that the people packed and left.

Mr. NAUGHTON. So, as of now, you really don't know how many of those houses, which are out there showing up as long term delinquencies or maybe even short term delinquencies——

Mr. ELLIOTT. No, wait. Yes, we do. As soon as this delinquency starts to go up, the county people go out to find out what is going on. If a place is vacant, then they know they have a vacancy on their hands.

Mr. FOUNTAIN. If a man walks out and doesn't make a payment, or after he misses his first payment, you do some checking to see what the problem is, don't you?

Mr. ELLIOTT. That is the reason we wanted to get on a monthly delinquency basis so we wouldn't have abandoned houses out there and not realize it.

Your points from last year were very cogent. We have taken them into account. If we get a report of delinquency on a monthly basis—and they are the ones that the county people should address themselves to and not those who are paid up—then we are on a better controlled course, which is precisely what we discussed last year and what we are doing about that issue you raised last year. I hope we have the thing under control.

Mr. NAUGHTON. As of now, the county office, particularly the well-run ones, probably have a pretty good idea of how many houses which have not been taken into inventory are vacant, but the national office does not have that information to my knowledge.

Mr. ELWELL. Mr. Naughton, I am sure you are correct. I think a county supervisor would know what houses are vacant. And, you are touching on a subject that is a legal matter. In some States it is very difficult to declare abandonment. But county supervisors through many devices find out that a house is vacant and the family has left. I would say that you are correct, yes.

Mr. NAUGHTON. Is it possible at the present time to identify the builder of a house or that subdivision in which it is located from your computerized records? It is not, is it?

Mr. ELWELL. No, sir.

Mr. NAUGHTON. Have you given any consideration to how much it might cost to eventually include that information in your computerized record and the possible usefulness of the information as compared with the cost of compiling it?

Mr. ELLIOTT. I never gave it a thought, but it is worth considering and we will look at the cost benefits either way.

Mr. NAUGHTON. Isn't it accurate that a rather high percentage of your problems with bad loans, vacant houses, and so forth, can be traced to a relatively few builders, a relatively few subdivisions?

Mr. ELLIOTT. I can't say that. I couldn't say it is based on any factual evidence except in some investigations we have found builders whose work was poor and caused some abandonment. So we corrected the problem cases.

Now I would say the biggest cause for people leaving houses is financial circumstances like lack of employment in the area where we built for a borrower. Another cause, along with the economic woes that might beset people who have a need to go somewhere else for employment, is attendant marital problems that arise, for whatever reason. So the answer is I would not be able to narrow it down to the issue of poor construction as being the only cause for abandonment.

Mr. FUQUA. Just for my own edification. Suppose that I purchased a home under FmHA and was current in my payments and I found a job in another town and had to move. Do I have to notify Farmers Home? Suppose I wanted to keep the house as an investment and rent it to someone else. Is that permissible?

Mr. ELWELL. Mr. Congressman, it is not. One of the objectives of our loans is to help a family acquire a home of their own. The mortgage and security instrument would require that if the family does move, and does not plan to return, then it is not permissible to rent the house. We do, however, have the authority and exercise it to permit renting the house for a period of time, if there is any prospect of the family coming back.

Mr. FUQUA. It is very similar to your farm loans. If you have sufficient assets, then you must go to PCA or Federal land banks?

Mr. ELWELL. Yes, sir. The graduation is applicable to housing the same as in the other programs.

Mr. ELLIOTT. As in my opening statement, where I said we have financed approximately 835,000 houses, we now have only 584,000 active borrowers. They have either graduated over or have gone into——

Mr. FUQUA. This has been true of the 235 program under HUD, I think. Anyway you don't have to answer that. I understand there has been a substantial number of graduations where the Government's liability has been removed.

Mr. ELLIOTT. I would hope so.

Mr. FUQUA. Yes, I understand.

Mr. NAUGHTON. Do any of your current reports show loans on which no payments or only a very small percentage of the payments due have been made—concentrations of this type of loan?

Mr. HANSON. Would you repeat the question?

Mr. NAUGHTON. Yes. Do any of your computerized reports or your regular reports try to identify loans which have been in effect for some time but on which no payments or only a very small percentage of the amounts due have been made? I am talking about loans that went bad almost at once.

Mr. HANSON. Well, this is what we will show when we get into our proper reporting system on an aging basis. This, then, will show up.

Mr. NAUGHTON. Do any of your current reports, which are computerized and available, show when the most recent contact with a delinquent borrower was made?

Mr. HANSON. Not as a computer report, no, sir. The county office would have that kind of record.

Mr. NAUGHTON. The same would be true of when the last physical inspection was made of a property on which payments are delinquent?

Mr. HANSON. Yes, sir.

Mr. NAUGHTON. We have already been over the delinquent loans which involve transferees rather than initial borrowers where the transferee becomes delinquent. He is not separately identified?

Mr. HANSON. There is no separation; no.

Mr. NAUGHTON. Just a very few questions on the St. Louis center. Would you provide for the record the number of personnel that are out there and the nature of the computer equipment?

Does the St. Louis center process only for Farmers Home Administration or also for other USDA agencies?

Mr. ELLIOTT. I can answer that right now. It is a Burrough's 3500 computer. It is under the Department's operation. They service us solely and they process nothing else but Farmers Home activities. We added in April another Burrough's 2700 to augment our computer power.

Mr. NAUGHTON. How efficient do you think that operation is? Are there significant tasks which are performed manually out there that might be done by the computer more efficiently?

Mr. ELLIOTT. The answer to that question is, yes. We have supplied for the record our conversion of manual operations to computer operations.

A piece of background is essential though. When it started out, it had about 100,000 records and about $1 billion worth of loans. In about 5 years they got their first computer out there with their accountants and with the background of their people—well, they didn't take maximum opportunity provided by the computer. This has been part of our problem of getting a system that can accommodate 10 million borrowers and $13 billion worth of outstanding loans.

Mr. NAUGHTON. Do you anticipate that you will eventually be able to make substantial personnel savings?

Mr. ELLIOTT. I won't use the word "substantial." I expect to make some by maximizing our computer operations. Any that I do maximize on, I hope to put the people where we need them, and mostly in the field.

Mr. NAUGHTON. I want to cite one example of something I think you might be able to improve. You have a quarterly report which shows the number of delinquent borrowers in each county and the percentage of the total number of borrowers that are delinquent. The problem is that that particular report is printed in two thick books. You have to look up the number of borrowers in one book and the percentages in another. There are all kinds of blank spaces in between.

Mr. ELLIOTT. We are quite aware of that problem. We are taking many management improvement actions as the result of discussions last year and our own knowledge of the finance center's problems. And we, as you know, and I pointed it out yesterday, did have McKinzey review it and come up with recommendations, which I said I would be delighted to submit for the record.

Mr. NAUGHTON. Mrs. Welch in our office would give you a vote of gratitude if you had just one book instead of two so she doesn't have to go through and copy the percentages.

Mr. ELLIOTT. We could run a popularity contest both with the subcommittee and also at the county level, too.

Mr. NAUGHTON. Do you have any specific procedures requiring county supervisors and county personnel to make a physical check on the property or to contact the borrower after a loan has been delinquent for any period of time.

Mr. HANSON. Well, the county supervisor operates on his work plan and of course part of that is to check his delinquent accounts. Now, if an account is delinquent for the first time, it may not appear on his work plan immediately. But, if it shows up delinquent after 3 months, let us say, then that is going to be one that he will probably go out to visit. Now what the procedural requirements may be——

Mr. ELWELL. Mr. Naughton, we do check a delinquent account and physically review the property to see that the security is being maintained. In an account that is not delinquent, we do not necessarily inspect it unless there is some knowledge that an inspection is necessary.

Mr. NAUGHTON. How long can a supervisor go without either checking the house or contacting the borrower when a loan is delinquent without violating instructions that you have issued? Is it mandatory he make an effort to make the contact or make that inspection after 3 months, or can he go for a year without violating a specific instruction?

Mr. ELWELL. I believe our instructions are that when the account becomes delinquent—and I am not certain, Mr. Naughton, that there is any required 30 days or 90 days—the county supervisor is expected, as soon as possible, to make the inspection of the property.

Mr. NAUGHTON. Well, on the average, how long does it take and what would the maximum period be?

Mr. ELWELL. I would say a reasonable period of time would be 30 to 60 days to make this type of inspection.

Mr. NAUGHTON. Do you have any records indicating whether or not those inspections have been made within that period of time?

Mr. ELLIOTT. We do not. The other point is, we have established a specific cutoff time when a loan will be determined delinquent for each type of loan in a county office. We will provide the county office with this delinquency list. The county personnel will establish their work plan to service these delinquent accounts. This system should improve the work planning and efficiency in the county office. We already have the system for the housing delinquencies on a monthly basis. We started that as of June 1. We will have the rest of them, hopefully, converted to an exceptional delinquency report by December 31. Then, work plans will operate based on delinquency accounts. The county people will be expected to attend to the business of delinquencies and not worry about the paid up accounts.

Mr. NAUGHTON. Aside from those cases where it is really just a late payment and they come in a few days late and make it, do you have any information as to the number of loans which have become seriously delinquent and that eventually become defaulted as compared with the number where the borrower overcomes that delinquent position and pays back up?

Mr. HANSON. Might I comment? The district director is required by our procedures to review county office activities including problem loans once every year. At that time they get into great detail as to what is happening with problem accounts, and delinquent accounts are included into this. Now we do have, of course, a record of foreclosures underway. As a matter of fact, the figures that have been manually put together for us on that, show that as of January 10 there were 1,384 foreclosures in process, for example.

Mr. NAUGHTON. What I am trying to do is to find out what the odds are that a borrower who has become 6 months delinquent is likely to pay up and become current as compared with the odds he is likely to go into total default?

Mr. ELLIOTT. Well, let me see if I can answer that. As I pointed out last year, I was new to this. This year we are converting to monthly payments.

To answer precisely that question from a management viewpoint, we will have that by December 31. We will have better work plans. In other words, I am 6 months short of answering your question completely.

In the housing area we are current and we are insisting that the delinquencies be monitored more closely because we are reporting them on a monthly basis for the first time. We took heed of the concerns of this subcommittee, and our concern that we did not have a responsive system so we put it on a monthly basis. We do now and will have for all of the loan portfolios what you were pointing out last year and precisely the question you are asking today.

For the housing, we are on course, but for the rest of the loans it will be by December 31.

Mr. NAUGHTON. It is my understanding you issued regulations using some authority which has been on the books for a number of years but never utilized allowing for a moratorium on principal and interest payments to borrowers who, through no fault of their own, are unable to make payments on a current basis. How do you determine whether or not to try to go along with a borrower who is delinquent and try to get him through or to go to liquidation action?

Mr. ELLIOTT. Well, that is the counseling that the county people do on a continuing basis for delinquent accounts. When they refuse to pay up, they decide that. For a long while we carried people quite some time beyond an acceptable period, if you look at all the loan portfolios.

The point is, this is what the county people do with their delinquent accounts. If it has become hopeless in their judgment, they will go to liquidation, but that is the reason for setting up parameters, that is, taking that pressure off them to make that judgment.

When the moratorium problem came up, we put a regulation out on the moratorium because that was an essential requirement.

As to the judgment on a moratorium for an individual beyond his control, that again will have to be the county offices' judgment as it has been to date on delinquencies and the decision to foreclose.

Mr. NAUGHTON. Do you generally operate on the theory that if a borrower is doing his best to make payments but simply cannot do it, if his family is going to eat, that you will go along with him as best you can as compared to someone who isn't really trying?

Mr. ELLIOTT. The answer is, yes, because the Farmers Home Administration has in its legislation a social objective of trying to help these people to the extent that you can both in counseling and in providing them an adequate home. While it may vary from person to person, the county supervisor does try to help the person improve his position so that he can stay in the house.

Mr. GUINOT. May I just make a brief statement? We have a suit against us specifically pertaining to this regulation that you have cited, and insofar as any statements here could be used by the parties to the suit, we would like very much to hold in abeyance any comments. We don't know when the thing is going to be calendared. As a matter of fact, I am waiting notice any minute. Perhaps Mr. Elliott can testify as to the procedure that his people have done on the county level before the implementation of these new regulations——

Mr. FOUNTAIN. I think whenever you have a situation where a question is propounded which could call for a response which might involve a situation like this where a suit is involved, we would expect you to bring it to our attention.

Mr. ELLIOTT. I am not referring to this newly implemented section. I was answering that question of how we have had our county people handle that problem to date prior to the issuance of instructions represented by this section.

Our county people have counseled and worked with and carried people delinquent, if there was any hope to make that person whole and keep him in a decent house. If the situation becomes hopeless, then the decision is made that we must go to foreclosure or transfer or voluntary conveyance.

Mr. NAUGHTON. Why don't we just ask you to submit for the record a statement indicating the basis on which the county supervisors make this determination as to whether to continue to go along or institute litigation?

Mr. ELLIOTT. Delighted.

[The information referred to follows:]

STATEMENT CONCERNING BASIS ON WHICH FMHA OFFICIALS DECIDE WHETHER OR NOT TO LIQUIDATE A DELINQUENT LOAN

Farmers Home Administration's published policy for servicing loans is to continue with the loan so long as the borrower (1) has reasonable prospects for accomplishing the loan objectives, (2) continues to make payments on the loan in accordance with his ability, (3) properly maintains and accounts for the security, and (4) otherwise meets the loan obligations in a satisfactory manner. When these conditions are not satisfied, prompt action is taken to liquidate any security for the loan and to protect the government's financial interest.

Procedures implementing Section 505 of the Housing Act of 1949 "Moratorium on loan payments" were issued to our field staff on July 11, 1974. These instructions authorize a moratorium on interest and principal payments for section 502 and 504 RH loans upon a determination that due to circumstances beyond the borrower's control, he is unable to continue making scheduled payments without unduly impairing his standard of living. Cancellation of interest due and payable during the moratorium period may also be authorized in cases of extreme hardship.

Mr. NAUGHTON. Where you have had large concentrations of delinquent and defaulted loans, as you unquestionably do in some counties throughout the country, have any written analyses been made to explore the reasons? I have been requesting copies of any such documents for several weeks now and haven't found any yet, but I thought I would ask that question for the record.

Mr. HANSON. Well, again, Mr. Naughton, I think that I would have to say as a systematic basis, that you could point out and say every so many weeks or months a report comes in, no. On an individual basis, yes. On requests I could say, yes, whenever we see this kind of problem.

Mr. NAUGHTON. I understand that you have problem case reports. I am talking about something like a situation where you have 50 vacant houses and a 50-percent delinquency rate in *x* county because the plant that was the main source of livelihood for the people working there closed and they simply can't make the payments, or in another instance it might be that you had a director that simply was not doing his job and made a lot of loans he never should have in the first place. But as of now, I am not aware of any written analyses that would help to explain just what has happened and why you have gotten into a rather serious default or delinquency situation in a number of areas throughout the country.

Mr. ELWELL. Mr. Naughton, several years ago we did make a survey. I think you and I have discussed this a time or two where we asked State directors to go back through and pinpoint the reasons for delinquency. We did this, reasoning that delinquency is the telltale sign of problems. We would be glad to give you a résumé or a report concerning the reasons that were given based on the State directors' analyses of their caseloads in the States.

Mr. NAUGHTON. We have that in the record of our prior hearing already. It is interesting, as I recall it, that out of 10 or 12 reasons given, practically all of them except one relate to character defects or misfortunes on the part of borrowers. There is one item there that would relate to possible inefficiencies or failure to perform their duty on the part of the Farmers Home Administration personnel.

Mr. ELLIOTT. I would accept that. Again, it requires training and selection of personnel, and that is indeed a factor.

Mr. NAUGHTON. But the summary was not too helpful in pinpointing specific areas and telling us what happened that led them into this. I might also comment that there was a report that came back from Arkansas that suggested that the reason for the large number of vacant houses in a subdivision, which had pretty poor conditions according to the description we got, was that the borrowers decided that they would rather move back to the shacks they lived in before and spend their money on nonessentials. I find that rather hard to accept, if there has been adequate counseling and adequate screening in the first instance.

Mr. ELLIOTT. Well, I can assure you there is not always adequacy of counseling on one side or adequacy of understanding on the other side in the population with which we deal. It is regrettable when we, as humans, don't achieve the objectives we are seeking, and I would accept the responsibility to assure we improve counseling. I would accept the responsibility of trying to get the "best borrower" into the house initially. But failing that, or failing for whatever the reasons of the individual borrower, then I seek to protect the Government's position.

Mr. FOUNTAIN. I was going to suggest that you concentrate on the more important questions that we ought to get into the record today. I want to yield to Mr. Alexander for any questions he might have so we can then question these gentlemen who spent the taxpayers' money to come up here from South Carolina and Virginia.

We may have to submit other questions to Mr. Elliott and his staff for the record.

Mr. ALEXANDER. I would just like to make one brief observation and ask a couple of questions, and then we can proceed forthwith pursuant to the chairman's statement.

General, I would like to amplify further on the opening remarks which you made earlier which were in support of the efforts of the Farmers Home Administration. I, too, support those efforts, but it has been my observation now for 6 years in the Congress that few people care about country people, who are really a silent minority. We've heard about the silent majority and we've heard about the vocal minority. Well, country people are a silent minority who are sparsely distributed as well, which, we all know, diminishes their political influence. It is easy for the Congress as well as the administration to ignore them, to ignore their needs, and to sweep their rights as defined and implemented into law by the Congress under the rug.

It also makes it easy for them to be the target of political manipulation. I think that political manipulation of these people, who are a silent minority and who are what I describe as the backbone of America, is a disgrace. I turn very quickly upon that statement to the situation in Mississippi. I would just like to ask you if you have read the report of the investigation down there and if you agree with the conclusion of your OIG report that there was no evidence of political influence that was used or exercised for the benefit of one Mr. Clark Reed, chairman of the Mississippi Republican Party?

Mr. ELLIOTT. Well, that is a pretty good question. As a lawyer, you have the knowledge of a need for evidence better than I. The only evidence that I have is what we ask the OIG for; namely, would they investigate the facts. If the fact is not substantiated, I am at a loss to do anything. If the facts or evidence had in substance been proved in that report, it would have been turned over to the Department of Justice for necessary and appropriate legal action. The best advice I had, Mr. Congressman, was that there is no evidence that I can work upon to take that course of action.

Mr. ALEXANDER. Well, I would like to announce to you that I think we should have some hearings on that particular subject at which time I may produce some evidence which would be very interesting for your observation.

Mr. ELLIOTT. It is always useful if somebody will provide evidence for us to pursue. And if pursued in a normal juridical manner and with due process, we can get an answer.

Mr. ALEXANDER. One further thing. I recall back in December when we just discovered through the proceedings, Mr. Elliott, some of the goings-on in the State of Mississippi, I received a call from a witness or a proffered witness in Mississippi—who I don't know and have never met—and I requested that the OIG send investigators to talk to that witness. The witness announced to me that he was prepared to sign under oath a statement which would be evidence of political influence and corruption of the Farmers Home Administration program in the State of Mississippi. I understood that was in progress. I was very disappointed to learn subsequently that while the two investigators were there, they received a telephone call from their regional headquarters—and I believe that is in Atlanta—and they were called off of the investigation. Now, are you familiar with that?

Mr. ELLIOTT. No, sir, I am not.

Mr. ALEXANDER. Now is not the proper time to go into that, and I think maybe at a later date we will need to bring those two investigators to this subcommittee and hear what they have to say under oath. I would like to pursue that at the proper time.

Mr. FOUNTAIN. In the meantime, since he said he didn't know about it, you may wish to submit to him, Mr. Alexander, any information you think would be helpful to him to make his own investigations.

Mr. ALEXANDER. I would like to say this. I think that General Elliott is a sincere, dedicated, and honest man, and I mean no reflection on him as an individual or his efforts to administer this program. We are all limited when we depend on other people for assistance and for advice. I had to ask that question because I felt that you did not have all of the facts before you, and I feel compelled in that event to assist you in providing those facts for your consideration, Mr. Elliott.

Mr. ELLIOTT. Sir, if you will develop those facts for me, I will pursue them in the manner by which we determine justice based on evidence and based on facts. I will turn them over to the General Counsel for determination as to whether they go to the Department of Justice for appropriate action.

Mr. ALEXANDER. Well, it may be that you don't have fraud. It may be that all we have is gross political influence. I am sure that the general would be in a position to evaluate and distinguish between the two. I am not making any statements that there is evidence of criminal activity at this particular time. I hope you understand.

Mr. Naughton. These questions will be addressed primarily to Mr. Brooks and Mr. Goodling, who are the State directors of South Carolina and Virginia, respectively.

Mr. Fountain. Let me say we are delighted to have you two gentlemen with us. I hate to take you away from your homes although you may have wanted to visit Washington at this time, but I am sure you already know what is going on here without our commenting on it.

Mr. Naughton. One of the reasons that the State directors from Virginia and South Carolina were asked to be here for these hearings is because, despite the fact that the loan volume in Virginia and in South Carolina is fairly close—it is somewhat larger in South Carolina—and in some respects the populations are not too different—there is a very significant difference in some of the statistics as to their operations.

For example, as of the most recent report we have, it was indicated that there are only 12 houses in inventory in the State of Virginia of which only 3 are vacant whereas in South Carolina—and I am not certain of the exact number—but, by my count last night, there were 512 houses in inventory which were vacant and certainly some more which were not vacant.

On the other hand, in terms of the number of liquidation actions taken or in process based on some unofficial statistics that were obtained by Mr. Johnson in Virginia, it shows in Virginia, as of around March, there had been 32 foreclosures during 1973, there were 25 more in process and there had been 5 voluntary conveyances in 1973 for a total of 62 liquidation actions. The comparable statistics in South Carolina for 1973 were 175 foreclosures, with 964 foreclosures in process as of March of this year. There were 125 voluntary conveyances in 1973 for a total of 1,264 liquidation actions in South Carolina as compared with the total of 62 in Virginia.

On the other hand, when it comes to the number of delinquent loans in Virginia, there are 3,543, or 15 percent, as of March 31, according to a report from the finance office. South Carolina had reported 3,033 for an 11 percent rate. I wonder if you gentlemen could give us any enlightening answers as to why there are these tremendous discrepancies in the statistics?

Mr. Fountain. Do you want to go first, Mr. Goodling, or do you, Mr. Brooks?

Mr. Naughton. Well, Mr. Chairman, Mr. Brooks has the most houses on hand and——

Mr. Brooks. In South Carolina we have had our highest volume in rural housing loans between 1971 and 1973 and now those houses where we are having failures naturally are to be serviced. The liquidation actions, the transfers, and so forth, are numerous, and the reasons are many.

Probably the greatest cause of delinquencies and problem cases has been that things have changed for our people since the loan was closed. Electricity has gone up and we have had inflation and an increase in food and taxes and so forth. It has wiped out much of their repayment ability and they have problems. Therefore, we are in the process of working with these people in voluntary transfers and, in some cases, foreclosure.

Mr. FOUNTAIN. Back to the problem of inflation again. Inflation is hitting people in this income bracket worse than any other segment of the population.

Mr. BROOKS. When their repayment ability is wiped out, we do have a problem. When we made the loan, they had repayment ability. We believed that and that was our judgment when the loan was made. But that has been changed since the loan was made.

Mr. NAUGHTON. Mr. Goodling, should we assume from the very low number of houses you have in inventory that you don't have the problems that Mr. Brooks has just mentioned?

Mr. GOODLING. I think the comparison of the two States is a rather difficult thing. I can only say that Mr. Brooks got started in a very ambitious way quite a bit prior to Virginia. I was aware that Mr. Brooks was making a lot of loans, and I was wondering why it wasn't happening in Virginia. We geared our program through a lot of innovations to get to the point we are today. Hopefully, the mistakes or the problems that resulted from his program will help us in Virginia to prevent a lot of these things.

I think the economic situation, the income levels, in the two States—and this is pure speculation on my part—is quite different and I do not foresee for some time this problem in Virginia. We have tremendous growth. We have a tremendous economy. We have a lot of people moving into the State and at this point in time, when we have a house that becomes vacant or becomes seriously delinquent or other problems occur, we have possibly two or three people that are eligible and standing in line to move into that house.

Looking ahead, I see this situation for several years. We have many substandard houses and many people looking for homes in Virginia. I think the figure of the study was that we had 300,000. So we think that down the road for several years we will be able to transfer people into these houses that we have an inventory for. I think these figures will stay over for a long period of time.

Mr. NAUGHTON. You have an almost unbelievably low number of houses in inventory and I think only three of those were reported as vacant. However, in some counties you have an exceptionally high rate of delinquency. In King and Queen County, for example, it is indicated that there are 148 active borrowers. Fifty of them—or 34 percent of those loans—are over 6 months delinquent. In King William County you have 98 loans and 24 over 6 months delinquent for a 25-percent figure. In Isle of Wight County, out of 487 loans, 80 are reported to be delinquent for more than 6 months. That is 17 percent.

This seems to be a pattern in Virginia, that is, that you have a much higher percentage than South Carolina of long-time delinquent loans. How many of those houses would you estimate are vacant that are shown in your records as delinquent more than 6 months?

Mr. GOODLING. I think we have a very low number of vacant houses. I think our figure—and the staff and I discussed this last night—well, we think if you combed the State you could not find more than 24 vacant houses.

Mr. NAUGHTON. Have you asked your county offices—well, not your county offices, because an office usually serves two or three counties in Virginia—but have you asked your local offices to report to the State office on the number of vacant houses that they are aware of in their office area that are vacant and that have not been taken into inventory?

Mr. GOODLING. The report you have before you we supplied last week, and we asked them this question. And, of course, the ones in inventory—well, no, specifically we did not ask how many there are.

Mr. NAUGHTON. These are two different questions. Could you do that?

Mr. GOODLING. We could do that.

Mr. FOUNTAIN. Do you want that done in both States?

Mr. NAUGHTON. Well, I think it might be helpful. Do you have such a figure for South Carolina, Mr. Brooks?

Mr. BROOKS. We don't have an accurate figure. We will need to work on it.

Mr. NAUGHTON. OK.

[The information referred to follows:]

VACANT HOUSES NOT IN INVENTORY IN VIRGINIA AND SOUTH CAROLINA

The Virginia State FmHA office subsequently advised that a survey of county offices had disclosed a total of 133 vacant houses in which FmHA had an interest, of which five were presently in inventory and seventeen were in the process of being transferred to new owners.

The South Carolina State FmHA office subsequently advised that counties had information in their files concerning vacant houses not in inventory, but total figures were not collected at the State office.

Mr. NAUGHTON. What is your judgment, Mr. Brooks, as to the number of vacant houses not in inventory compared with the 500 or so that you have in inventory?

Mr. BROOKS. We do not have that number. We know there is a number but the exact number we do not know. We could find it out.

Mr. FOUNTAIN. This system of monthly reporting ought to be able to help you find a lot of that information.

Mr. ELLIOTT. This is what we have been trying to do in order to be able to provide accurate data. We all recognize we need it. You have pointed it out to us, Mr. Naughton, and your subcommittee has. I expect to have that system in operation to provide just this kind of management information and control. It has been one of our ongoing efforts.

Mr. NAUGHTON. Would you say, Mr. Goodling, that you have a less aggressive policy of liquidating loans. Is that part of the reason perhaps why you have fewer houses in inventory?

Mr. GOODLING. Less aggressive? On the contrary, we would probably have a more aggressive policy.

Mr. NAUGHTON. In liquidating?

Mr. GOODLING. Yes. Yes, we have a different situation than Mr. Brooks has also.

Mr. ELLIOTT. This is a point I would like to stress. Mr. Brooks should point out, if you haven't, that judicial foreclosure is a requirement in the State of South Carolina and it makes it much more difficult sometimes. Sometimes it takes 12 to 18 months in order to process the property under that. In various States we have a lot easier proposition. When a person is in default, you don't have to foreclose. You can voluntarily convey. You can do a lot of different things under the State laws.

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Mr. FOUNTAIN. You also may have to have a judicial foreclosure?

Mr. BROOKS. This causes an accumulation of your statistical information here of delinquencies, vacancies, and——

Mr. GUINOT. Mr. Chairman, a comment on that point, which is a very important thing and should be borne in mind. In the Southeastern United States there is a trend now in the courts after the decision of a case with the title of *Law* v. *the United States*, to the effect that nonjudicial foreclosures are under fire. The Department of Justice did not agree that this case should have been appealed because it was not a good case on the merits. We are right now under the situation where title companies are not going to insure title in States such as Georgia and I believe South Carolina, if we acquire the property under a nonjudicial foreclosure procedure. So we are having to put all of these liquidations once again under the judicial foreclosure process and of course the U.S. attorneys are busy and have a lot to do and this is not really the most exciting legal work to do. So you will find that these figures are going to increase, as the result of that specific case.

We have a companion case in Mississippi coming up which may give us the capability of appealing the thing and getting the matter resolved, but this should be borne in mind as we look at these figures. They will be going up in the next few months.

Mr. FOUNTAIN. Does advertising before the sale takes place bring in many payments?

Mr. GOODLING. Quite a few, yes.

Mr. ALEXANDER. Mr. Chairman, just one question for Mr. Goodling.

Mr. Goodling, one of the problems in Arkansas that has produced abandonment and delinquency and inability to acquire a new buyer is a quality factor—a lack of quality, a rapid deterioration in the homes. Would you say that you have a high quality home that is produced in the State of Virginia? If so, to what extent does that contribute to your high occupancy rate?

Mr. GOODLING. I think there is no question that we are real proud of the quality of our houses that we have in the State. Obviously in several cases when we have poorer applicants and the house is deteriorated, we have to change it, but we make subsequent loans and take the house in inventory and we repair it and resell it on the market.

I would certainly invite you, if you have an opportunity, to come down and see our program. I wish you would. I would like to take you on a tour. We are totally proud of what we have done in the State of Virginia. We have a lot of marginal programs and we have a lot of stick-built houses, but the houses are generally of good quality. They are not 100 percent, obviously. We don't have all good builders.

But, in general, obviously, to transfer a house, you have to have something that is livable and attractive. Generally for maybe $1,000 or $1,500 we can do this type thing.

Mr. ALEXANDER. Well, I accept. You don't have any around Fairfax County, do you? I would like to sell.

Mr. GOODLING. We have one house in Fairfax County. We have some in Fredericksburg and over in the valley. I would love to show you what we have.

Mr. ALEXANDER. I am not so sure of the houses they sell in Fairfax

County, incidently, for $75,000. I am not so sure that they would meet your specifications.

Mr. NAUGHTON. Mr. Goodling, I am sure you are acutely aware of the problems that you have with the Suffolk office. And in view of the very low number of houses in inventory and the fact you are aware of almost no vacancies, I should point out that it is my understanding that a gentleman who was temporarily acting as county supervisor down there in November of last year reported that in the Suffolk office area there were 88 borrowers who had paid nothing since obtaining their loans. Further, and in addition to the 88 nothing paid borrowers, he indicated there were 387 borrowers who had paid from 1.6 percent to 73 percent averaging approximately 40 to 50 percent on the amount due for 1973. In addition, the gentleman stated that there were 20 known abandoned houses and there were no doubt numerous others in the 88 borrowers listed in item 1 where immediate visits and followups should be made to protect the Government's interest.

Can you comment on what the situation actually was down there? Did these 20 abandoned houses exist?

Mr. GUINOT. Counsel, as concerns this particular area, we have a man under indictment that should be tried in the next 2 or 3 weeks. I think we should tread a very careful line——

Mr. NAUGHTON. Let me say as to the questions here, we understand a former supervisor—not the gentleman who wrote this letter—is under indictment on grounds of alleged forging of checks. These questions are not related to that charge at all and should not be construed in any way as involving the guilt or innocence of the man on that charge.

Mr. GUINOT. I am sure of that. However, some of the questions you may ask may have arisen during this gentleman's tenure, I am just concerned we should tread a very careful line in the questioning.

Mr. ALEXANDER. Mr. Chairman, it also could affect the credibility of the gentleman and subject him to being impeached on cross examination if we develop testimony here that would tend to undermine or impeach his credibility as a witness.

Mr. GUINOT. Thank you, sir. That is another reason.

Mr. ALEXANDER. Yes.

Mr. FOUNTAIN. Well, when we ask for facts and information, you can give us the benefit of your thinking as to whether or not the subject matter or the information you are giving would in any way have any impact on that.

Mr. GUINOT. In addition to that, sir, I understand there are some special investigations being conducted at the present time in the State of Virginia which may, I think, have some relevance to what the testimony might be in the case of Suffolk County.

Mr. NAUGHTON. Let me ask you this. How many vacant houses are there in the Suffolk office area at the present time?

Mr. GOODLING. Well those in inventory, as you see from the statistics, are none. I would say——

Mr. NAUGHTON. Do you have any vacant houses that are not in inventory?

Mr. GOODLING. There is a possibility we have a few—like less than five. This is pure speculation.

Mr. NAUGHTON. What did the Suffolk office report to you as the number of vacant houses at the present time?

Mr. GOODLING. Well, I said we did not have the figure of vacant houses that were not in inventory.

Mr. NAUGHTON. I see. You are going to get that?

Mr. GOODLING. We are going to supply that for you, right.

Mr. NAUGHTON. What can you tell us about the operations of Windsor Development, Castle Development and associated companies in Virginia? It is my understanding a gentleman by the name of Nathan H. Cohen was associated in some fashion with those enterprises.

In order to identify Mr. Cohen, he was convicted, or pled guilty a few years ago to an operation involving fradulent activities in the home improvement business under the name of Monarch Construction Co. in the District of Columbia.

It is my understanding, although I don't know this as a matter of fact, that under the terms of his sentencing he was instructed not to engage in the home improvement business. It is also my understanding that he has been active in some capacity in Virginia and to some extent in other States in selling homes under FmHA financing.

Mr. GOODLING. I think very briefly I can tell you about Windsor Builders. I would say at the outset that if I had one builder that came before us in the 4 years that I have been State director down there, this is one I would not have wished for, but as you know, you can't win them all. Windsor Builders came to us in late 1971. I had no knowledge that Nathan Cohen was in any way or shape or form involved. As a matter of fact, I never heard of Nathan Cohen.

We needed a mass producer at that time. We wanted to build houses. We had a lot of demand for houses. So it was the type of thing that we needed. It was a company out of Newark or Wilmington, Del. We looked into them. We looked at their financial situation. They had an adequate staff. It looked like they could do the job we wanted.

They didn't do a very good job for us. The quality of workmanship and response to complaints deteriorated as the number of houses constructed increased. In 1972 we ran into this awareness that Nathan Cohen was in some way involved with these builders. It was a story that came out of the Norfolk Pilot.

Very briefly, I called all the participants after that and Windsor Builders and we interviewed them and I was assured that Nathan Cohen was in no way an officer or participating in this thing in any management way or as an officer. At the time he assured me that he was not on any black list as far as he knew. I checked this out with the Federal housing and our national office and he was definitely not on any list. As he pointed out to me, he said he had to make a living. He owed $600 a month for the wrongdoings. He was exonerated as I understand it. He was convicted but he was not put away so to speak. So he had a right to make a living, and we questioned whether we had the right to deprive him of that.

So under these conditions we went on and then subsequently we had some problems with Windsor Builders. We brought them up and eventually we, in the last year, have ruled that in any shape or form, anyone connected with Windsor Builders in any way cannot build any houses in the State of Virginia.

Mr. NAUGHTON. Was the basis for that particular ruling based on your experience with them?

Mr. GOODLING. The ruling was based on some followup to their buildings, which was a little bit shoddy, and we didn't feel they were doing the type of job we had asked them to do in following up on the work they had done.

Mr. NAUGHTON. Do you have any information as to the number of loans which have been defaulted or are seriously delinquent involving housing which was built by this group of individuals?

Mr. GOODLING. I have no statistics. I think it probably was an average of all of the other loans in that area. They only built in two areas. They built a total of 212 houses for us.

Mr. NAUGHTON. Do you anticipate that there will be a loss to the taxpayers in connection with the houses that have been built?

Mr. GOODLING. I do not. I think their houses, they were modular houses and were as adequate as most of the other houses we built in that area.

Mr. NAUGHTON. Did you have any situation in which borrowers never moved in after the loans were made?

Mr. GOODLING. I think in some cases. I think some of these things are relevant to this investigation.

Mr. GUINOT. Counsel, there are certain investigations going on in Virginia and these are areas being covered. But I would like to make a comment for the record, insofar as testimony given by Mr. Goodling a few seconds ago is concerned. He said words to the effect that he has given orders that no one involving this company is to build any houses in Virginia. I would like to qualify that somewhat.

In essence what Mr. Goodling is talking about is a possible debarment of a contract.

We have a very strange situation with the people that build houses for the Farmers Home Administration because we don't have a one-to-one contractual arrangement with them. You see these folks build houses for a borrower who borrows from us. So, actually, we don't have a direct link with them. So, we have to be very careful when we talk about debarment. I am sure Mr. Goodling did not in any way mean to state they had automatically debarred these people.

In the instructions that we have—and may I add that the instructions can be found in the Code of Federal Regulations—the process we have requires Mr. Goodling to make a determination as to suspension or debarment and then that determination is subject to appeal by the administrator. I am sure he is referring to the first step in the debarment procedure, if any is being considered. I would hate the record to show that he has automatically debarred these folks without following the regulations we have for that purpose.

Mr. NAUGHTON. Well, let me ask that you provide more details for the record, Mr. Goodling, concerning the extent of these details as to what the experience has been on these loans in terms of the delinquency status, the default status, and the nature of the complaints and so forth.

Mr. GOODLING. Fine.

[The information referred to follows:]

VACANT HOUSES IN SUFFOLK, VIRGINIA FMHA OFFICE AREA AND PROBLEMS INVOLVING OPERATIONS OF WINDSOR HOMES, INC.

Vacant houses in Suffolk.—At present there are fourteen vacant houses in the Suffolk area and five of these are being actively processed for transfer.

Status of Windsor Homes, Inc., constructed houses.—The number delinquent is 134 and 26 of these can be considered as having defaulted on their loan. Approximately 50 percent of the houses constructed by this company initially had complaints; however, most were of a minor nature and easily corrected. The delay on the part of the contractor aggravated the situation with the owners and FmHA. Very few (8–10) owners have active complaints today and a portion of these may end in legal proceedings. The major complaint is the failure to complete a subdivision road to standards required by the Virginia Department of Highways.

Mr. NAUGHTON. I am sure you understand that no one is suggesting that you can say to a man that we heard some unfavorable publicity about you and therefore we will not do business with you. On the other hand, is it fair to say that you can and should devote your limited resources to watching very carefully people whose past record may indicate that they need more watching than others?

Mr. GOODLING. Certainly, and we certainly do that. We do it at every point.

Mr. NAUGHTON. Mr. Brooks, how bad are your inventory problems in South Carolina? You have about 500 houses in inventory. What do you think the market is for selling those homes? Are you going to be able to get rid of most or all of these 500 by the end of the year, realistically?

Mr. BROOKS. Most of the ones we now have ready for sale will move by the end of the year. During that time there will be others that become vacant. It is a process we are involved in. It isn't static. There are a few pockets of poverty, or whatever you want to call it, where there are low-income families where repayment ability is difficult and it is difficult to sell the homes, but there is no one county where that exists. It is just a part of a county or maybe just one subdivision involved here.

So, in answer to your question, yes; the houses are moving in South Carolina with a few exceptions of little pocket areas.

Mr. NAUGHTON. To what extent would you judge that these vacant houses are concentrated in individual subdivisions, with 15 or 20 in a single subdivision?

Mr. BROOKS. They are not that high. They are concentrated in subdivisions, but they are small. They are maybe not more than 10 or 12 on the smaller divisions.

Mr. NAUGHTON. About what percentage of that 500 houses would you say are in groups of 10 or more in a single subdivision?

Mr. BROOKS. A very small percentage. In fact, I think we only have two subdivisions in South Carolina with more than 10 vacancies in that subdivision.

Mr. NAUGHTON. Are there any instances in which one builder may be involved in a large number or a fairly high percentage of defaulted loans?

Mr. BROOKS. In those two particular cases, it would be that the builder built the houses in those subdivisions.

If you are talking about the State as a whole where there are builders in volume, there is no particular builder that I know of, that we had that much problem with before it was corrected or we were aware of it. It is more of a general condition. We use many builders. We use hundreds of builders.

Mr. NAUGHTON. To what extent, in your judgment, have poor living conditions, which have been described in our earlier hearings such as septic tanks that don't work and the sewage backs up into the bathtub and so forth, been a factor in creating these vacant houses?

Mr. BROOKS. It has been a factor. To what degree, I do not know. If the septic tank does not work, no one wants to live there unless it is corrected. We have corrected this sort of situation.

However, we are in a situation in our State where our low country is flat and we do have problems, and generally always have had, with septic tanks.

Mr. NAUGHTON. In your judgment, proportionate to the number of loans involving each type of housing, have you had more difficulty or less difficulty with defaults and delinquencies in manufactured homes as is compared with the conventional homes?

Mr. BROOKS. I can really see no difference. In some situations it will be one and in some the other. With stick built or conventional built we have had problems with consistency in quality of materials. It is better on that score than on manufactured homes or the other types. On the balance, I see no real difference.

Mr. NAUGHTON. Do you have any judgment as to whether the losses suffered on resales, that is, the average loss or gain, is likely to be more or less for one type of housing than the other?

Mr. BROOKS. I do not anticipate it. I think it will be fairly close and a pretty good balance.

Mr. NAUGHTON. Have there been any significant problems in South Carolina involving multifamily housing?

Mr. BROOKS. Of all the loans we made, I think we only have one with a problem. I would like to ask Mr. Willie A. Collins, chief of housing, if that is correct.

Mr. COLLINS. That is correct. We only have one that had any problem and that has been a problem primarily in occupancy.

Mr. BROOKS. I would like to say that our program in multifamily housing has not been large compared to our individual ownership, our 502 program. And as Mr. Elliott told you yesterday, he indicated that we want to emphasize this as an approach to reaching low-income families. We should have and anticipate having a greater activity in this field.

Mr. THOMPSON. Are the reasons known for the occupancy problems?

Mr. BROOKS. The information that I have indicates that it is a management problem.

Mr. NAUGHTON. A little while ago you indicated, I believe, that the foreclosure procedures are simpler and more rapid in Virginia than they are in South Carolina, yet it appears that the foreclosure procedure has been used to a much greater extent in South Carolina. I would rather expect that the opposite would be true—that where the foreclosure procedure was the easiest, it would be used more often. Do either of you have any explanation as to why the reverse seems to be true in the statistics we received?

Mr. GOODLING. I have with me a management specialist, Mr. Obediah Baker. I also have Mr. Marion V. Baker of our staff who is housing chief. I would like to ask Mr. Obediah Baker to speak to that.

Mr. BAKER. Mr. Naughton, in the State of Virginia we exhaust all liquidation alternatives prior to going to foreclosure. This is primarily the reason that our local count is relatively low compared to South Carolina. By the time we have exhausted all alternatives available, in most cases, we have managed to liquidate that account. Oftentimes we resolve our problems through transfers either to eligible transfer applicants or to noneligible.

Mr. NAUGHTON. Do you have any figures as to the extent to which transfers have been made to borrowers who in turn become delinquent? What is your experience?

Mr. BAKER. No, sir. Now, when we make a transfer, it does not necessarily mean that the account will be current after the transfer is made.

Mr. NAUGHTON. What about King and Queen County? You have apparently 50 loans delinquent over 6 months out of a total of 148. What happened out there?

Mr. GOODLING. That is an area of high-minority and low-income people and the income hasn't been as good as it has in others. I would have to say also that I guess the fact that since the supervisor was in the process of quitting, which he was, apparently things slipped a little further than I thought they had. But I think it is an income situation. We have now transferred another individual in there. These areas that come out of this report, these five specific areas, are areas we are going to look into and hit. They are low-income areas. They are real problem areas to start with though. Apparently we are going to have to give more attention to the loans in this area.

Mr. FOUNTAIN. I might say before we break that I have a number of questions, which we can't possibly get to. I am going to suggest that Mr. Naughton confer both with the national witnesses and the South Carolina and the Virginia witnesses and submit to them a list of questions for which we would like you to prepare answers for the record, so that our record will be complete in these areas. We would like to get information on it. If we do, we may be able to avoid bringing you back at some later date.

[The question and answers appear in app. 20, p. 446.]

Mr. FOUNTAIN. I regret that we haven't had time to go into a little more detail in the questioning with respect to some of the things which I think Mr. Naughton submitted to you and indicated that we would be questioning you about. However, I think he has covered some of the key questions for our record purposes.

Do you have any other questions?

Mr. NAUGHTON. I was going to suggest, Mr. Chairman, we might include in the record or at least in the appendix a suggested questionnaire that was submitted to Mr. Johnson in July requesting that certain types of information about problems at the county level be submitted, along with the responses.

Mr. FOUNTAIN. If there is no objection, that will be done.

[The information referred to appears in app. 21, p. 465.]

Mr. FOUNTAIN. We appreciate you all making yourselves available and I hope that these two brief days of hearings, both yesterday and today, will be thought provoking and will enable all of us to have a little clearer conception of not only our responsibilities but of things we may be able to do to make the program an even better one and meaningful not only to the people for whose benefit the legislation was passed and the funds made available, but also to the taxpayers of the Nation.

Anything else you wish to go into?

Mr. Elliott. No, sir. We appreciate the role of you and your able counsel and the subcommittee. We appreciate the manner you have also presented it. It is constructive and useful.

I suggest perhaps you not only are from North Carolina but are a gentlemen who has had experience in Missouri. You got our attention. We propose to take the necessary actions, and I hope the gentleman from Arkansas can recognize that we are a silk purse all the way.

Mr. Fountain. Thank you, very much. The subcommittee stands recessed, subject to the call of the Chair.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIXES

(Appendixes 1–17 appear in part 1 of these hearings)

Appendix 18.—Library of Congress Report on Rural Housing Programs—A Progress Report

Inadequate housing is one of the most serious problems of rural America. Of the 20 million households in rural communities, almost 2.5 million lacked complete plumbing at the start of the 1970s. Much of the rural housing supply consists of older structures—almost half of the occupied units are of pre-World War II vintage. As in urban areas, bad housing is associated with low income. Four out of five families without full plumbing facilities in their homes had incomes in 1969 of less than $6,000 and more than half had deep-poverty incomes of less than $3,000. A disproportionate number of elderly people occupy inferior shelter.

In recognition of these problems, the Congress has enacted a number of programs designed to improve the housing of rural families. Since 1968, when a number of housing programs were created or expanded by the Congress, there has been a measurable increase in the volume of federally-assisted housing made available to American families. For the country as a whole, the bulk of the aid has come through the Department of Housing and Urban Development. For rural households, particularly those living in places of less than 10,000 population, the most relevant housing programs have been those administered by the Farmers Home Administration (FmHA) in the Department of Agriculture.

This paper is a status report on housing programs of the Farmers Home Administration. It provides information on the major rural housing programs administered by the Federal government. Attention is directed to performance of several programs in light of announced efforts of the Administration to de-emphasize new housing production and to place greater reliance upon existing housing and rehabilitation of older units.

HOUSING PROGRAMS OF THE FARMERS HOME ADMINISTRATION

Information has been gathered on the following programs authorized under Title V of the Housing Act of 1949, as amended:

- Low-income housing loans to individuals (Section 502);
- Moderate income housing loans to individuals (Section 502);
- Rural rental housing loans (Section 515);
- Housing repair loans (Section 504);
- Farm labor housing loans (Section 514).

Most of the housing loans made by FmHA enable rural residents to build or purchase an owner-occupied single family house. Such loans are repayable in not more than 33 years and bear interest at or near the market level. The rate in force in April 1974 was 8½%. Some purchasers with lower incomes receive interest credits to bring effective interest rates down to as low as 1%. In accordance with FmHA practice, these interest-credit loans are referred to in the tables that follow as "low income housing loans." Those made without interest reductions are termed "moderate income housing loans."

The bulk of the home loans made by the Farmers Home Administration are called "insured loans." They bear some resemblance to direct loans in that FmHA itself handles the original applications, processes the applications to completion, and collects monthly payments and otherwise services the loans. Loan funds are largely raised by the sale of certificates of beneficial ownership to private investors. These certificates bear the full backing of the Federal Government. Appropriations cover insufficiencies and administrative expenses.

Loans for rental housing may go to private nonprofit corporations and consumer cooperatives who propose to provide modest cost units for elderly persons of limited means or other persons with low incomes in rural areas. Two types of interest subsidies are authorized: one provides 50-year loans at 3% interest; the other offers interest credits down to 1% depending upon the incomes of the occupants.

Housing repair loans may be made only to very low income families to enable them to make their houses safe and sanitary and to remove health hazards to the occupants and the community. These are direct loans, currently repayable in 15 years and bear interest at only 1%. The maximum repair loan is $3,500.

Loans and grants are also authorized for providing decent shelter and related facilities for domestic farm labor. Sponsors are public or private nonprofit organizations. A small program since its inception, the farm labor housing program is slated for termination by the Administration. "No funds are being requested for fiscal year 1975," it is stated in the budget, "since the Administration believes the Government's proper role can best be served by other programs." [1]

INCOME LEVELS SERVED

The homeownership programs of FmHA provide aid to families with incomes below the median for the country. The median income of all families assisted under the Section 502 program during the year ending June 30, 1973 was $7,169. The comparable figure for families assisted under the program and receiving interest reduction subsidies was $5,941. The range of incomes served is shown in Table 1. It will be noted that only 7.4 percent of all aided families (and 12.2 percent of those receiving interest subsidies) had incomes below $4,000. The poverty line for a nonfarm family of four in 1972 was $4,275.

The maximum adjusted income for families eligible for FmHA-assisted rental housing varies from state to state. For families in whose behalf the deepest interest subsidies are paid the range of maximum incomes is roughly $6,500–7,500. For others receiving a smaller subsidy the range is approximately $8,000–9,500. The Farmers Home Administration relies upon sponsors of rental housing to select eligible families and does not collect data on incomes of families in rental housing.

The Nixon Administration has raised serious questions about the usefulness of many of the rural housing programs. Most of the programs were suspended by executive determination at the start of 1973. The budget issued at that time stated:

> No new obligations will be incurred under the low-income housing, rural rental housing, and farm labor housing loan programs after January 8, 1973, pending completion of a thorough evaluation of federally subsidized housing programs. This evaluation will focus on whether the programs: (1) are the most effective mechanisms available for providing housing assistance to low-income families; (2) are providing excessive benefits to other than the intended beneficiaries; (3) represent a proper Federal role. Applications which had been certified for approval by this date will be processed for approval and disbursement.[2]

The rural housing programs were resumed after July 31, 1973 in compliance with a Federal Court order of that date handed down in the U.S. District Court of the District of Columbia.[3] But the Administration has continued its efforts to reorient federally-assisted housing programs. The proposed budget for fiscal year 1975 (issued January, 1974) states:

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[1] Budget of the U.S. Government, fiscal year 1975, appendix, p. 166.

[2] Budget of the U.S. Government, fiscal year 1974, appendix, p. 175.

[3] *Pealo v. Farmers Home Administration* (Civ. Action No. 1028–73, D.D.C., Memorandum form [Order]. Cited in Louis Fisher, "Court Cases on Impoundment of Funds: A Public Policy Analysis," Congressional Research Service, Washington, D.C., March 15, 1974, p. 4).

TABLE 1.—INCOMES OF FAMILIES ACQUIRING HOMES THROUGH SEC. 502 IN THE YEAR ENDING JUNE 30, 1973

[By percent]

Gross income	All families	Families receiving interest credits
Under $3,000	2.5	4.1
$3,000 to $3,999	4.9	8.1
$4,000 to $4,999	10.2	16.9
$5,000 to $5,999	13.5	22.2
$6,000 to $6,999	16.0	25.3
$7,000 to $7,999	17.2	18.3
$8,000 to $8,999	15.0	4.1
$9,000 to $9,999	10.5	.7
$10,000 and over	10.3	(1)
Median income	$7,169	$5,941

1 Less than 0.5 percent.

Source: Farmers Home Administration. Medians computed by CRS.

This budget provides for an interim rural housing policy which moves in the direction supported by the President's housing study through greater emphasis on using existing housing, rental housing, home repairs and rehabilitation, and makes Farmers Home Administration programs more available to persons with the greatest housing needs. This action is being taken pending completion of the HUD experimental housing program. Guaranteed loans are to be used on an experimental basis during 1974 and 1975 for a portion of both the moderate income and rental housing programs.[4]

PROGRAM LEVELS OF FMHA HOUSING LOAN PROGRAMS

The volume of rural housing loans rose steadily from 1969 through 1973. The funds obligated annually for the purpose increased from approximately $500 million to almost $1.9 billion over that period and the number of families assisted each year grew about 50,000 to 120,000. The bulk of the loans throughout these years went to individual families for the construction of new homes. In 1973 about 99,000 loans were of this type. Rental housing production assisted by FmHA registered moderate gains, reaching a level of almost 9,000 units in fiscal year 1973.

In 1973 about two out of three families assisted by Farmers Home received interest subsidies, most of them in the form of interest credit under the Section 502 homeownership program for people with $4,000 to $8,000 income. Housing repair loans to very low income families went to fewer than 3,000 households. Less than 1,000 units of housing were funded for farm laborers—probably the poorest and most disadvantaged group in the rural economy. (See Tables 2 and 3.)

RURAL HOUSING PERFORMANCE IN 1974

The Administration's proposed budget for fiscal 1974 (submitted to the Congress in January 1973) provided no new loan obligations for subsidized homeownership, rural housing, or housing for farm laborers. The only programs to be continued were the moderate income building loans (Section 502 without interest credits) in the amount of $618 million and $10 million in direct loans for home repairs to very low income families.

TABLE 2.—RURAL HOUSING LOANS: OBLIGATIONS BY FISCAL YEAR

[Dollars in millions]

Program	1973 actual	1974 estimate	1975 estimate
Low-income housing loans	$1,036.5	$1,278.0	1 $1,229.0
Moderate-income housing loans	699.2	707.0	744.0
Rural rental housing loans	105.1	144.0	146.0
Housing repair loans	4.6	10.1	20.0
Farm labor housing loans	10.2	10.0	0
Total	1,855.6	2,149.0	2,139.0

1 Includes $586,000,000 for existing houses and $150,000,000 for housing repairs and rehabilitation.

Source: Farmers Home Administration and budgets of the U.S. Government.

4 Budget, fiscal year 1975, p. 171.

TABLE 3.—RURAL HOUSING LOANS: PROJECTED NUMBER OF DWELLING UNITS BY FISCAL YEAR

Program	1973 actual	1974 estimate	1975 estimate
Low-income housing loans:			
New houses	58,675	33,900	26,700
Existing houses	6,319	36,300	34,700
Repairs and rehabilitation	1,983	43,575	50,000
Moderate-income housing loans to individuals	40,499	41,000	40,200
Rural rental housing loans	8,759	11,050	10,550
Housing repair loans (sec. 504)	2,748	5,500	10,200
Farm labor housing loans	812	750	0
Total	119,795	172,075	172,350

Source: Farmers Home Administration.

The Congress went substantially beyond the Administration's recommendations. For 1974 the Congress approved $2,149 million for rural housing. The largest part of this was targeted for subsidized homeownership loans: almost $1.3 billion. In addition the rental housing program was continued at a level of $144 million and $10 million was provided for farm labor housing loans. (See Table 2.)

The de-emphasis of new housing production and increased reliance upon existing housing and rehabilitation were announced by the Administration in the fall of 1973.[5] In the Administration view, existing units could be acquired and rehabilitated if necessary at lower unit costs than new housing. Thus, a given amount of Federal dollars could help more families, so the Administration argued. "The present programs provide relatively large amounts of housing services to a limited number of families," the Administration study group held.[6] Moreover, the present programs mostly served families above the poverty level. For 1974 the Administration has allocated funds for only 34,000 new homes under the low income housing loan program, compared with almost 59,000 new houses assisted in fiscal 1973. The bulk of the funds are earmarked for existing houses (36,000 units) and houses requiring repairs and rehabilitation (44,000 units). In 1973 some 6,300 existing houses and less than 2,000 rehabilitated units were funded under this program. (Table 3.)

The announced shift to existing and rehabilitated houses has been difficult to implement. Through March 31, 1974 the Farmers Home Administration had obligated about 19 percent of the funds it had earmarked for the year ending June 30, 1974 for existing and rehabilitated houses under the low income housing loan program. Of the 80,000 existing and rehabilitated houses programmed for the year, only 8,600 units (10.7 percent) had been assisted by the end of the third quarter of the fiscal year. The lower performance ratio in number of houses as compared with amounts of dollars apparently reflects higher than anticipated average costs of existing houses. Thus the presumed cost advantage of the change in policy may be less than averred by the Administration. (See Table 4.)

In contrast with these lagging efforts in the existing and rehabilitation sector, about two-thirds of the year's funds for moderate income new housing loans had been obligated by March 31 and two-fifths of the funds for new houses under the low income program. In a word, the Farmers Home Administration has had far more success in 1974 in carrying out its responsibilities with respect to new housing as compared with existing and rehabilitated housing. One can only speculate at this time on the reasons for the lag. In urban areas efforts to mount a major housing rehabilitation program have been frustrated by the primitive state of the home rehabilitation industry. This may hold with even greater force in small towns and open country. With respect to existing housing, the high overall vacancy rates for year-round housing in nonmetropolitan areas (about 9.4 percent in 1970) suggest that such units should be easy to find. In fact, the empty houses may be in places where few rural families want to live, and structures in appropriate locations may be relatively old and undesirable.

[5] Department of Housing and Urban Development, *Housing in the Seventies*, October 6, 1973.

[6] Ibid., p. 4–100.

TABLE 4.—RURAL HOUSING LOANS IN FISCAL YEAR 1974 AUTHORIZED FOR YEAR AND OBLIGATED THROUGH MAR. 31, 1974

[Dollars in millions]

Program	Number of units			Amount		
	Authorized 1974	Obligated Mar. 31, 1974	Ratio obligated to authorized (percent)	Authorized 1974	Obligated Mar. 31, 1974	Ratio obligated to authorized (percent)
Low-income housing loans	113,775	22,025	19.4	$1,278.0	$378.1	29.6
New	33,900	13,452	39.7	588.0	249.1	42.4
Existing and rehabilitation	79,875	[1] 8,573	10.7	690.0	129.0	18.7
Moderate-income housing loans	41,000	26,848	65.5	707.0	483.8	68.4
Rural rental housing loans	11,050	2,736	24.8	144.0	30.9	21.5
Housing repair loans	5,500	1,457	26.5	10.0	3.0	30.0
Farm labor housing loans	750	[2] 90	12.0	10.0	1.2	12.0
Total	172,075	53,156	30.9	2,149.0	897.0	41.7

[1] Includes some nonsubsidized new units which cannot be separated at this time.
[2] Estimated number of units based on 9 project loans at average 10 units per project.

Source: Farmers Home Administration.

PROSPECTS FOR 1975

The Administration's proposed budget for fiscal year 1975 calls for new obligations for rural housing totaling $2,139 million. This is slightly lower than the amount approved by the Congress for fiscal year 1974. In numbers of units, the Administration projects 172,350, virtually the same level estimated for (but not likely to be attained in) 1974.[7] As in prior years, the bulk of the activity is expected in the homeownership program for families eligible for interest subsidies. But only one out of four assisted families would be enabled to acquire a new house, while the rest would be expected to obtain an existing house or rehabilitate their present house. The number of new homes under the program would drop from almost 59,000 actually funded in 1973 to about 27,000 in 1975. The projected number of existing houses to be financed in fiscal year 1975 is 35,000 compared with 6,300 actually financed in 1973. The Administration estimates that 50,000 homes will be rehabilitated under the insured low income housing program in 1975; in 1973 the number actually rehabilitated under this program was below 2,000 houses.

Based on performance in the first three quarters of fiscal year 1974, these projections of existing and rehabilitated units to be assisted in 1975 appear to be questionable. The record—and experience with urban housing programs—indicate that a 25-fold increase in rehabilitated units over the 1973 level would be a quantum jump for which the stage has not been set. A five-fold increase in existing units over the 1973 level is less improbable but even in this case the performance level in 1974 would cast doubt about that projection.

The Administration's 1975 budget provides no new funds for the farm labor housing program. This form of aid has never reached a significant scale. In 1973, 812 units of housing were financed for these low-paid workers and only 750 units are to be provided with 1974 funds. Neglect of low income people was cited in the Administration's 1973 study as a major weakness of existing housing subsidy programs. If fairness toward the poor is a prime consideration, a sizeable shelter program for domestic farm laborers would seem to have a high priority.

[7] These estimates, provided by the Farmers Home Administration in April 1974, update the figures that appeared in the 1975 budget (Appendix, p. 172) issued in January 1974.

Appendix 19.—Replies by Selected State FmHA Offices To Survey of Existing Housing

A. NATIONAL OFFICE QUESTIONNAIRE

Office of the Administrator,
March 18, 1974.

Subject: Existing Housing Inventory.
To: All State Directors.

FHA Bulletin No. 4816 (444) outlined our policy emphasis of making loans to buy, repair or rehabilitate existing homes. In view of this policy, we need additional information on the availability and the quantity and quality of existing housing in each of the states in your jurisdiction. We would also appreciate your comments on current market conditions for this housing.

We need all possible data on exisitng housing that is readily available to you. You may already have some data on hand, but you could contact State Housing Authorities, local or state real estate boards, and academic groups. From this data on existing housing, we hope to be able to obtain the "best available" estimate of the numbers of existing homes that need to be repaired, rehabilitated and are for sale. We do not want a personal survey. Just use the best information at your immediate disposal.

In reporting the information, please use the following format:

Item 1

Number of existing single family homes vacant or for sale:

(*a*) in "move in" condition: 15,800.

(*b*) needing some repairs: 4,575.

(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 22,230.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 5,200.

Item 2

Number of single family homes occupied or not for sale:

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 98,150.

(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 22,500.

If you have drawn material from printed reports, please send us copies of these reports other than data published by the Bureau of the Census.

In addition to the above data, we would also appreciate your comments on the following questions:

1. Has there been a substantial increase in the cost of existing housing units during the past 6 months? If so, what factors have influenced this increase? What is your estimate of the percentage by which the Farmers Home Administration's policy has contributed to the price increase?

2. Are difficulties being experienced in obtaining craftsmen to repair or rehabilitate the houses?

3. Can repair or rehabilitation work be contracted or is it more common to pay for labor and material needed to complete the work? Estimate by percent and method.

4. What is your estimate of the percentage of the homes reported in each category of Items 1 and 2 that are likely to be included in our program to assist lower-income families?

5. Can the total cost, including the cost of repairs and rehabilitation, be feasibly reflected in our present market value appraisal?

6. How are building codes affecting the cost of rehabilitation?

7. What other serious problems are you encountering that are and could inhibit the implementation of this policy?

This data is needed promptly, therefore, the information should be mailed to reach this office, Attention: Acting Assistant Administrator, Rural Housing, not later than April 8, 1974.

Again, do not ask your field staffs to make a personal survey.

FRANK B. ELLIOTT,
Administrator.

B. SELECTED STATE OFFICE REPLIES

ALABAMA

APRIL 5, 1974.

Reference is made to FHA Bulletin 4912(444), dated March 18, 1974, regarding existing housing inventory.

We have contacted Alabama Development Office, Alabama Home Builders Association, planning commission and realtors association in the last few days attempting to secure information to answer item 1 and 2 of the above bulletin. This information is just not available without going to the counties on a county survey.

From best information in talking to loan officers, District Directors, Housing Chief, and others in the state we are giving you the following information which is as you might say a "guesstimation."

Item 1

Number of existing single family homes vacant or for sale:

(*a*) in "move in" condition: 300.
(*b*) needing some repairs: 500.
(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 300.
(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 250.

Item 2

Number of single family homes occupied or not for sale:

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 313,770.
(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 151,511.

Information given for item 2 is taken from a housing report for the State of Alabama prepared by Urban Consultants, Inc., Montgomery, Alabama dated December, 1973. This report indicates that there are at the end of 1973 the 668,001 houses that are standard homes. It lists 313,770 houses in Alabama that are deteriorating and 151,511 houses that are delapidated. The report further indicates that there is a demand for 1,117,000 homes in the state and there are only 820,000 available, leaving a need of 296,000 homes which would be your deteriorating and dilapidating houses which are occupied but are not suitable for housing.

A majority of the rural homes in this state occupied by low income people are shacks and a majority of these shacks are really not suitable for 504 loans. A good example of the poor housing was noted by Mr. Carl Coan, Director of the housing program in the Senate, who visited a very dilapidated dwelling in Wilcox County a year or two ago while visiting in Alabama. Mr. Coan asked the lady why she moved into such a poor house and it was really poor. Her answer was "Boss, you should have seen the house I moved from."

The only available existing houses that we will be able to buy are in the towns of 2,500 to 10,000 that may become available through realtors. When we leave the shack type dwellings in which we have thousands in this state we go to old dwellings, obsolete, either flat on the ground or built four or five feet off the ground with wooden porches half way around the house with probably asbestos shingles put on over wood shingles with no insulation, poor wiring and just not a good investment for any family. Very few, if any, houses constructed in this state prior to 1950 contain insulation. Very few have adequate wiring and modern heating. I realize that we are giving you information on existing houses which is contradictory to the present policy, however, we are merely giving you the facts as they exist in this state.

In addition to the above data, we give you our comments on the questions asked in your bulletin.

1. Yes, there has been a substantial increase in the cost of existing housing units during the past 6 months. The greatest fact of influence is inflation. Cost

of new buildings have increased substantially thus influencing the asking price for existing houses. I do not believe the Farmers Home Administration policy has contributed to this price increase since we have not been actively buying the type houses that are available on the market.

2. In some areas of the state it is very hard to obtain craftsmen who do repair or rehabilitation work on houses. There is plenty of work available on new dwellings which is much easier and not near as risky as repairing old dwellings.

3. In a majority of the counties small contractors are contracting repair work. The average builder of new homes will not become involved in this type of work. I would estimate that 60 percent of the repair work could be contracted and the remainder would have to be by borrower method.

4. As stated above we are encouraging supervisors to look more and more to the purchase of modern type dwellings. We still discourage purchase of obsolete substandard dwellings which is so prevalent in this state. Our record in the past has been very low on purchase of existing houses.

5. On the modern type dwelling which we find located in small towns that are suitable for our program I would say that the appraisal would support options plus repairs.

6. We have no state wide building codes and only a few larger towns have building codes that extend into the police jurisdiction.

7. I believe I have made it clear that our big problem is the fact that we have very few modern, well insulated, adequately wired houses available for sale to applicants in our program. We have all kinds of obsolete type houses, non-insulated, poorly wired, high ceilings that would take enormous maintenance over a period of years available but we do not recommend that they be purchased through this program.

We have always encouraged our 504 program in this state and you will find that we normally run about third in the nation. There is an excellent place for this loan program in Alabama and the revised procedure giving additional time will make this program suitable to more families in this state.

John A. Garrett,
State Director.

Delaware

April 8, 1974.

Subject: Existing Housing Inventory—Delaware, Maryland, New Jersey.

Upon receipt of the subject bulletin a survey was made of all county offices under my jurisdiction. The replies have been received from each office and we have attempted to consolidate this report. The information is from multiple listings for each area and our working knowledge. The reported information follows the outline in the subject bulletin.

Item 1

(*a*) 10,000.
(*b*) 7,500.
(*c*) 5,000.
(*d*) 2,000.

Item 2

(*a*) 100,000 plus.
(*b*) 200,000 plus.

The number of single family homes vacant or for sale listed in Item 1 is a conservative estimate. The number of vacant homes and homes for sale varies from time to time and many of these homes are not modest and would not qualify for the Farmers Home Administration program.

The number of single family homes occupied or not for sale that need substantial repairs or rehabilitation and those homes that need repairs and rehabilitation but cannot be brought to standard, such as the 504 type homes, is also a conservative estimate. Although the figures taken were from county office reports, my staff advises that this number could be even greater.

In reply to the balance of the questions in the bulletin I will answer them in the order they are printed.

1. In the three states under my jurisdiction there has been a substantial increase in the cost of housing during the past six months. The factors influencing

this increase are: (a) Availability of land suitable for the construction of housing (b) The demand for housing by moderate income families (c) The restrictive zoning whereby large lots are required for construction of dwellings (d) Restrictive building codes which require 1500 square feet and up of living area (e) The increased cost of materials (f) The increased cost of labor (g) The influx of people desiring to live away from the cities.

The Farmers Home Administration policies have not been instrumental in contributing to the price increase due to the large volume of houses being sold and constructed in this very populous area.

2. In most of the areas reviewed no difficulty is being experienced in obtaining craftsmen to repair buildings. In other areas difficulty is being experienced in obtaining builders to repair dwellings. The older the dwelling the more difficult it is to have this type of work done and in many cases where homes would qualify for 504 loans, it is practically impossible to get someone to do the work.

3. In most areas repair or rehabilitation work can be contracted but some areas pay for labor and materials to complete the work. It is our estimate that 80% of the work is done by contract. In many cases with older homes the work has to be done on a cost plus basis. Contractors will not do the work on a contract basis. Estimates cannot be made of how much the work will cost.

4. The percentage of homes reported in items 1 and 2 above that are included in our program varies from 1% in the more populated counties to 10% in the more rural counties.

5. The total cost of repairs and rehabilitation can be reflected and is reflected in the present market value appraisal of homes financed by the Farmers Home Administration.

6. Although building codes have a considerable effect on the construction of new homes it has very little effect on the cost of rehabilitation of existing dwellings.

7. Some of the serious problems in financing existing dwellings are that the costs are greater for developing existing houses to meet our standards than the cost would be for a new home in the same area. The cost of heating existing homes in many or most cases would be substantially higher than the cost of heating a properly insulated new dwelling. The other operating and maintenance costs on the existing dwellings are also higher than they are for new dwellings.

The artificial scarcity of lots created by very rigid zoning has raised the cost of existing dwellings so that they are priced out of our range. Our survey indicates that it is more economical to finance a family in a new home than an existing home and that if some of the zoning and square footage requirements were changed to allow more of our housing to be built, we could do this. It is my opinion that although there are existing dwellings to be purchased, the only way to meet the ever increasing housing demands is through the construction of new units. Because there is a rapid turnover in existing units there is an abundance, and rotation does not meet the needs of housing. The shortage of housing seems to be more critical in New Jersey and southern Maryland because of restrictions than elsewhere.

C. William Haines, Jr.,
State Director.

COLORADO

April 5, 1974.

In reply to FHA Bulletin No. 4912(444) our estimates of the number of houses available in the various categories are as follows:

Item 1

Number of existing single family homes vacant or for sale:

(*a*) in "move in" condition: 1,000.

(*b*) needing some repairs: 500.

(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 300.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 200.

Item 2

Number of single family homes occupied or not for sale:

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 3,700.

(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 950.

These figures were extracted from the enclosed reports prepared by the Colorado Division of Housing.

In addition, we wish to comment on the following:

1. Yes. Increased cost of materials, labor and land keeps driving up the price of new housing and, since the demand is so great, the prices of existing houses went up too. Our policy has little or no effect on the cost of existing housing in most communities, because where we are making loans for new houses the demand is so great the prices would have been higher still if the new houses hadn't been built.

2. Yes. Remodeling is the most difficult type of construction to accomplish.

3. Most is done by contract where we are financing the work because we insist on contracts.

4. The numbers we have used in Items 1 and 2 are estimates of the houses in a given category in the rural areas and towns where we can make loans. All could be considered as potential for loans, but in actual practice, only about 5–10% will be available in any one year.

5. In about 50% of the cases it would be feasible to rehabilitate.

6. In most of the areas we serve building codes have not had an adverse effect. Some towns and counties have building codes, some do not.

7. We have a very low inventory of existing housing. What we do have is old and usually cannot be updated because of obsolescence.

LEO FRENCH,
State Director.

ILLINOIS

APRIL 1, 1974.

This is in response to FHA Bulletin No. 4912(444).

Item 1

Number of existing single family homes for sale (rural): 6,163.

(*a*) in "move in" condition: 616.

(*b*) needing some repairs: 1,233.

(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them up to standard: 2,465.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as 504 type homes: 1,849.

Item 2

Number of single family homes occupied or not for sale: 421,099.

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 63,165.

(*b*) needing repair or rehabilitation but cannot be brought to standard such as the 504 type home: 126,330.

The above information is based on the 1970 census information and our knowledge of the housing conditions.

The following comments are offered in response to the seven questions as follows:

1. Yes. The shortage of good housing on the market and a high employment rate all over the state, and the high cost of material and labor. Farmers Home Administration only contribution to the increased cost is the fact we make money available in rural areas where no other lender is willing to do business.

2. Yes.

3. It is more common to pay for labor and material needed to complete the work. Labor plus material would be nearly 100 percent of the method used.

4. Item 1–42 percent.

5. Yes. However in a high percentage of the cases where it takes major rehabilitation it is more feasible and realistic to construct a new home. Major renovation improves the present value but does not retain the improved value over a long period as well as new construction.

6. State wide in rural areas the local building codes are not a big influence on the cost as many areas do not have a building code although there is some areas affected by codes. Farmers Home Administration's minimum property standards are more stringent than most codes in rural areas.

7. There is simply not enough suitable housing on the market or that will be on the market which Farmers Home Administration can bring up to standard to maintain over 50 percent of our loans on existing housing. However, we are using 57 percent of our funds for existing housing at the present time.

In summary, the material available to us does not adequately describe the substandard housing that is included in the statistical information. Our field experience has shown that a high percentage of the existing housing that becomes for sale is not feasible to rehabilitate. Each year it has become necessary to decline loans on a higher proportion of existing houses than in the previous year because they cannot be brought up to standard. For Farmers Home Administration to continue to meet the housing needs in rural Illinois, we are going to need to be able to stress new construction.

CHARLES W. SHUMAN,
State Director.

NORTH CAROLINA

APRIL 1, 1974.

Listed below are our estimates and comments on the information called for in FHA Bulletin No. 4912(444), dated March 18, 1974:

Item 1

Number of existing single family homes vacant for sale: 6,200.

(*a*) in "move in" condition: 700.

(*b*) needing some repairs: 2,500.

(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 2,000.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 1,000.

Item 2

Number of single family homes occupied or not for sale: 400,000.

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 40,000.

(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 10,000.

Comments on special questions:

1. There has been a substantial increase in the cost of existing housing during the past 6 months. The increased cost of land, materials and labor for new construction, and the decline in new housing starts have increased the prices for existing houses. Any contribution to the price increase resulting from Farmers Home Administration's policy has been negligible.

2. Builders who will repair or rehabilitate housing are scarce.

3. It is difficult to contract repair and rehabilitation work for the structure itself. For single items, such as cabinets, floor covering, painting, wiring and heating, there is less problem, but where structural changes and renovations are necessary, craftsmen are less interested in doing the work because of the difficulty in making accurate estimates. Sixty percent of the work is done on a cost plus basis.

4. Item 1: 30 percent; item 2: 10 percent.

5. Agency personnel who perform appraisals need extensive training before launching into a large scale program of financing the older house. Our experience to date, based on losses in this area, indicate doubt that the cost of repairs and rehabilitation can be feasibly reflected in the appraisal.

6. Building codes have no appreciable effect on the cost of rehabilitation.

7. Most of the available existing housing was not built for owner-occupancy; therefore, the materials and workmanship in most instances are inferior. Those houses available that were constructed for owner-occupancy generally carry a premium price for sentimental reasons and due to the fact that marketing costs of real estate brokers are greater than the sales charges made by builders. For obvious reasons, local county supervisors are more likely to succumb to pressures of real estate agents and their influences than from builders. Some of our greatest public relations problems result from transactions with applicants and owners who are represented by realtors. Since there is little or no credit from private sources to finance such housing in rural areas, FHA personnel are often subjected to undue pressure.

The information submitted represents our best estimates based on conversations with others and was not taken from any printed reports.

James T. Johnson,
State Director.

North Dakota

April 5, 1974.

In accordance with FHA Bulletin 4912 (444) dated March 18, 1974 the following information is furnished regarding existing housing in North Dakota. These are the best estimates available. We recognize they do not correspond to the 1970 census in that the census indicated the number of dwellings in item 2 at 24,193. In our opinion many of those houses were located in very scattered areas on abandoned farm sites and would in no way fit our housing program.

Item 1

Number of existing single family homes vacant or for sale:

(*a*) in "move in" condition: 568.

(*b*) Needing some repair: 501.

(*c*) Needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 627.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 1,560.

Item 2

Number of single family homes occupied or not for sale:

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 7,750.

(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 4,576.

Our comments regarding the reverse of the report are based on the general knowledge of the housing by members of this staff.

1. There has been a substantial increase in the cost of existing housing mainly due to the high cost of new construction. In our opinion Farmers Home Administration policy has not contributed a great deal to price increase.

2. In our smaller cities there are very few craftsmen available to repair or rehabilitate houses. Those that are available prefer to construct new homes and it is almost impossible to obtain craftsmen from larger cities to go into rural areas for repair work.

3. Craftsmen very seldom will contract for a repair job. It has been our experience in most cases there is usually considerably more labor and more material needed than is anticipated after the rehabilitation is started. In our opinion 95 percent are done by the borrower method. The other 5 percent are by contract method and usually involve an addition to an existing home rather than the repair of an existing home.

4. Possibly 40 percent of the homes reported in item 1—a, b and c are likely to be included in our program to assist low income families. Not over 10 percent in the other categories would in our opinion be used for this purpose. In many cases these are homes that are 50 to 60 years old, difficult to heat and difficult to rehabilitate to make desirable homes for families.

5. The newer homes for sale that need some repairs and those needing some repairs or rehabilitation in item 1 could be rehabilitated so the total cost could be reflected in our present market value appraisal. The above would apply to an older house which is 10 to 20 years old in progressive cities. These would be suitable and feasible to repair and would in our opinion fit into the program very well. This would not be true of older homes in small communities.

6. State plumbing and electrical codes increase the cost of rehabilitating older homes considerably. Local building codes have little effect.

7. When dealing with older homes in the 40 to 50 year old bracket the functional obsolescence limits the number of persons who purchase such a home. These homes are generally of the 1½ or 2 story type structures on which maintenance is costly. These homes are often difficult to properly insulate; therefore, heating costs are high and families are reluctant to purchase and rehabilitate such houses. In many cases the cost of purchasing and rehabilitating a home of this kind equals or exceeds the cost of new construction and families would prefer a new home

to the purchase of the existing older home. Many of the newer existing homes are presently selling for a price in excess of the cost of new construction.

N. PAUL RASMUSSON,
State Director.

OHIO

MARCH 18, 1974.

Item 1

Number of existing single family homes vacant or for sale:

(*a*) in "move in" condition: 15,800.

(*b*) needing some repairs: 4,575.

(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 22,230.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 5,200.

Item 2

Number of single family homes occupied or not for sale:

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 98,150.

(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 22,500.

1. In some areas there has been a substantial increase in the asking price for existing houses. Many of these are listed for sale if a buyer is interested at the inflated price but otherwise the seller is not really interested in selling. Realtors further advise that the primary factor affecting this increase is the ever increasing cost of new construction. It is our opinion that the FHA's policy has contributed little to this price increase since the agency's fair market appraisal of a property as improved is usually comparable to the asking price.

2. Craftsmen to repair or rehabilitate houses are not available in many areas of the state. In fact contractors continually experience difficulty in maintaining an adequate force of "craftsmen." We no longer find "people" in rural areas who are interested in working in the repair and/or rehabilitation area.

3. There is only in very extraordinary circumstances that repair or rehabilitation work can be "contracted." Such work is usually handled on a time and material basis with the loan being based on the best estimates obtainable.

4. We anticipate a very small percentage of the homes reported in the various categories of items 1 and 2 will likely be included in our program to assist low income families. We further anticipate the agency will be able to assist some families to acquire homes that are in "move in" condition. Where repairs are needed the asking price is usually set at a figure near the value of the property after it has been rehabilitated. With adequate assistance from "others" we trust the agency may be able to assist more families with the Section 504 authorization.

5. As indicated in "4" it is unusual when the present market value can feasibly reflect the including of the cost of repairs and rehabilitation.

6. The limited building codes existing in rural areas have had little effect on the cost of dwelling rehabilitation.

7. We believe the above indicates the biggest problems inhibiting the implementation of the policy to assist more low income families to acquire existing houses. Our experiences to date indicates low income families have difficulty in adequately maintaining a home. Many existing homes will require more maintenance. It is our opinion that the agency will be able to assist some capable low income families but we will not be able to really accomplish the intended goal unless many loans will be made on an unsound basis. We do not propose to put families nor the agency in such an undesirable situation.

OREGON

APRIL 5, 1974.

Following is our existing housing inventory report for Oregon.

Item 1

Number of existing single family homes vacant or for sale:

(*a*) in "move in" condition: 1,644.

(*b*) needing some repairs: 865.

(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 821.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 1,189.

Item 2

Number of single family homes occupied or not for sale:

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 3,200.

(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 20,090.

A copy of a report titled Oregon Statewide Housing Element is enclosed. Most of our basic information on single family homes occupied or not for sale came from this report.

Additional information

1. The cost of existing housing units has increased more than 5% during the past 6 months. Most of this increase was a result of increased cost of new construction, which has made the older homes more valuable. We believe FHA policy and activity have had no more than a 10% contribution to this cost increase.

2. Yes. There is a shortage of craftsmen to construct new homes, and it takes a more skilled craftsman to do repair or remodel work. Because of the unknowns in doing repair or remodel work, the majority of builders prefer new constructing. Many carpenters and builders refuse to do repair or remodel work.

3. We believe it is practical to do rehabilitation work by contract. Presently approximately 50% is being done by contract and 50% by borrower method. Very often a contractor will bid high on rehabilitation work because he has fears of the unknowns he will uncover. This increases the cost and often dictates the need to go the labor-plus-material route.

4. (Item 1) Many of the homes we reported in Item 1 are too expensive for the FHA program. Many have shortages of insulation in the walls that is nearly impossible to correct and which will increase the monthly heating cost to our borrowers. There are other uncorrectable deficiencies such as room size and arrangement, location, etc., which will make many of the homes inefficient for FHA borrowers. We thus feel that less than 50% of the homes would qualify for FHA financing and that not more than 25% are likely to be included in our program to assist lower income families.

(Item 2) The majority of the occupants in the homes we have reported in Item 2 are substantially happy with their home as it is. They would rather live with the deficiencies than repay a loan. We have begun an information program to get information to these people concerning our 504 and our 50% interest credit programs. Nevertheless, we would estimate that less than 10% of these homes will be included in our program to assist lower-income families. We further believe this will not happen rapidly. It will take time to convince these families that making the needed improvements is a worth-while investment.

5. No. Experience has shown that the older home, as repaired, will usually not sell for the original sale price plus, the cost of repairs. We believe this is a result of many rural families being willing to live in substandard homes. This has kept the market value of older substandard homes high.

6. This varies from area to area within the state. In many instances, building codes prevent using our 504 program as the local officials insist that if any repairs are made, the structure must be brought entirely up to standard. If we are using 502 funds, we see very little effect on the cost as a result of building codes.

7. a. Many older homes will not meet a 33-year loan life. Loans must be for 33 years to receive interest credit.

b. The property tax rate in this state is high. This discourages home owners from making improvements on their homes.

c. Our experience on the liquidation of existing home loans has been that we have only recovered about 50% on the outstanding loan balance. Losses seem to be excessive on the older or existing homes.

KENNETH K. KEUDELL,
State Director.

WISCONSIN

MARCH 25, 1974.

The following is information as requested in FHA Bulletin 4912(444).

Item 1

Number of existing single family homes vacant or for sale: 8,000.

(*a*) in "move in" condition: 960.

(*b*) needing some repairs: 1,040.

(*c*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 2,000.

(*d*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 4,000.

Item 2

Number of single family homes occupied or not for sale: 527,960.

(*a*) needing substantial repair or rehabilitation, including major equipment items which will bring them to standard: 150,000.

(*b*) needing repair or rehabilitation but cannot be brought to standard, such as the 504 type home: 100,000.

Other comments

1. There has been a substantial increase in the cost of existing housing in the past 6 months. As new construction costs and interest rates increased, more people decided to purchase older homes. This drove the cost of older homes up considerably. It is our opinion that Farmers Home Administration's policy had no effect on the price.

2. There is a definite difficulty in obtaining craftsmen to repair or rehabilitate existing homes.

3. This repair and rehabilitation work is on a labor plus material cost basis about 95% of the time. Very few contractors will do this work under a contract.

4. Item 1, 1c: 15% are likely to be financed by FHA. Item 2: about .01% are likely to be included in our program.

5. With the recent increased cost of existing homes, it appears doubtful that the total cost, including the cost of repairs and rehabilitation, can feasibly be handled in our present market value approach. Cash buyers and conventional lenders have helped inflate the existing home market. If we are required to pay present market price plus improvements it is our opinion that the cost will exceed the market value of these homes.

6. Building codes have very little effect on the cost of rehabilitation except when it becomes necessary to replace or improve septic systems and wells.

7. The serious problems encountered are high initial purchase price, high cost of labor and material for repairs and rehabilitation, difficulty in obtaining realistic estimates, small number of existing homes for sale, lack of personnel to do the planning work for remodeling and very little contractor work being done. This makes it very difficult to complete a loan docket for approval.

WILLIS W. CAPPS,
State Director.

Appendix 20.—Additional Questions and Answers

National Office

construction quality

Question 1. The subcommittee was advised last year that the Technical Services Division of the national office was in the process of preparing an inspection checklist for nationwide use. If the checklist is now being used, please provide a copy and indicate when it was introduced and whether it is being used in all States. If it is not being used, please give details as to the reason for the delay.

Answer. The construction inspection check list has been developed and used as a training aid. It was duplicated to hand out at two training meetings for Assistant County Supervisors and was received enthusiastically. It will be issued to the field soon.

Question 2. Are there any States which currently need (or believe they need) more people or better qualified people in order to do an adequate job of inspecting FmHA-financed houses? If so, please give details.

Answer. We believe that we have adequate personnel to handle inspections. The County Office personnel are responsible for carrying out inspections. There are times when states have indicated the need for additional inspectors. We have advised that there will be occasions when due to backlogs caused by sickness, resignations, etc., that it will be necessary to shift personnel from County Office to County Office and between states to assist in inspection work. Further, our training effort at the state level has been geared to consistency and flexibility in inspections so as to permit this method of operation.

Question 3. Has any analysis or evaluation been made by the national office of the number of construction inspectors available in various States and areas as compared to the workload? If so, please provide a copy.

Answer. A formal survey, as such, has not been made to determine the balance between construction inspectors and the workload. We have, however, allocated personnel, including County Supervisors, inspectors, and others, on the basis of total need. The County Supervisors and Assistant County Supervisors make inspections and the fact that a construction inspector is not assigned to a particular location does not indicate that adequate inspections are not being made.

Question 4. Recent testimony at House appropriation hearings indicated a wide disparity in the number of construction inspectors in various States (e.g., 17 inspectors in Mississippi; none in South Carolina). What is the reason for this disparity, and is any action planned to change the situation?

Answer. Several states have filled their authorized positions with County Supervisors and Assistant County Supervisors rather than hire a person to work only as a construction inspector. As indicated in the answer to question 3, these people make construction inspections along with the other work they perform.

Question 5. What information, if any, does the national office have as to whether or not there is a relationship between the lack of construction inspectors in South Carolina and the fact that South Carolina now has more than 500 FmHA-financed houses in inventory?

Answer. The National Office has no information which would show a relationship between the number of houses in inventory and the number of construction inspectors. We have, however, had few complaints involving construction deficiencies from that State and our experience has been that borrowers with poorly built homes readily inform the National Office directly or through their congressional delegation or others. We conclude, therefore, that the borrower default rate in South Carolina is not the result of inadequate construction inspections.

Question 6. What is the nature and duration of the training course(s) for construction inspection offered at Norman, Oklahoma? How many FmHA personnel have completed the course(s)? How many from each State?

Answer. The two training courses held in Norman to this date (January and February 1974 for Assistant County Supervisors) were 2½ days in length with one voluntary evening "bull" session on how various housing construction problems were handled at the county level. The 8-hour sessions included discussions on the Minimum Property Standards, completion of Form FmHA 424-2, "Dwelling Specifications," the working drawings review and the important items to include in the four required inspections.

The first two courses were attended by a total of 53 Assistant County Supervisors representing 36 of the 50 states and Puerto Rico.

LOAN APPROVAL

Question 1. Please provide figures (or your best estimate if no figures are available) showing:

a. the average length of time, on a nationwide basis, taken to approve or deny a loan after the application is submitted.

b. the average length of time taken to approve or deny a loan after the application for each State in which the time is significantly longer or shorter than the national average.

c. how the average processing time at present compares with recent past years.

Answer. Attached is a copy of an initial study of rural housing loan processing procedures which was prepared during 1970 and a copy of the validation study which was prepared in 1972. These studies reveal the average length time from the date a loan application is received until the resulting loan is closed.

[The studies follow:]

Position Paper—Initial Study of Rural Housing Loan Processing Procedures

BACKGROUND

In March of 1969, a Presidential directive required certain federal agencies to take actions which would improve coordination among various levels of Government and would speed up the delivery of services to the public.

The Federal Assistance Review (FAR) Committee was created in the Bureau of the Budget (now OMB) to direct and monitor agency efforts. Farmers Home Administration is represented on this FAR Committee by the Assistant Administrator, Management. The Systems Staff has now been charged with the responsibility for initiating and coordinating agency improvement efforts under the program.

One of the primary objectives of the program is to streamline and simplify the procedures and processes in loan making. In a Departmental report issued earlier in the year, this agency showed only slight improvement in this area.

The Rural Housing Loan processing procedure study was conducted as a means of responding to the Presidential directive. Similar studies will be conducted in the other loan programs.

OBJECTIVES

The primary objectives were to: (1) determine and document exactly what transpires in the making of a loan and the time involved, and (2) outline any remedial actions which have or are being taken to streamline and simplify the procedures and processes in loan making.

FINDINGS

A review of 241 loan dockets revealed that an average of 158.7 days elapsed from the date the applications were submitted until loan closing. All dockets selected for review were closed between February and May 1970. A breakdown follows:

State	Application to certification	Certification to approval	Approval to check request	Check request to loan closing	Total days
Virginia (33 cases)	74.0	15.8	22.8	33.8	146.0
Mississippi (54 cases)	150.8	12.2	33.2	36.3	187.7
Pennsylvania (11 cases)	103.4	36.8	30.2	26.2	196.8
Texas (41 cases)	76.3	44.6	18.4	32.0	171.7
Arizona (102 cases)	63.0	27.6	0	47.3	138.0
Average time	78.2	25.9	15.1	39.5	158.7

PROCESSING DELAYS

1. *An average of 78.2 days elapsed from the date of the application to the date the county committee certified the loans. These delays were primarily attributed to:*

a. Applicant's indecisiveness or inability to find proper housing and to furnish the county office essential information, such as the option to purchase the property or the contractor's dwelling specifications if the house is to be built.

b. Applicant's furnishing evidence of his inability to obtain necessary credit from other sources.

c. County office conducting credit checks on applicant.

d. County office verification of applicant's employment and receipt of reference letters.

e. County supervisor meeting with the county committee (at a regularly scheduled meeting) to obtain a tentative determination of the applicant's eligibility.

f. County supervisor conducting appraisal of property and completing appraisal, valuation of building, and map of property forms.

g. Heavy workload of county office.

h. Backlog of applications on hand.

i. Poor work management on the part of county supervisors.

Solution.—a. In September 1970, FHA developed the "Packaging Concept" to provide instructions to builders, developers, and others who may want to package applications for rural housing loans for submission to FHA County Supervisors. A guide which explains and illustrates the packaging concept was published and distributed to builders. Under this concept, the packager will provide FHA with the completed application, verification of employment, information on property (aids in the appraisal function), and dwelling specifications or option to purchase property. Submission of this package relieves the county supervisor from performing certain basic loan processes. His duties then begin with ordering a credit report and scheduling the appraisal.

b. Also, in September 1970, FHA joined with various other governmental agencies for use of Federal Housing Administration's (HUD) credit report contract sources. Beginning around December 1970, county and assistant county supervisors will be able to order credit reports on loan applicants. It is estimated that credit bureaus will furnish reports within eight days. This procedure will not only offer relief to the county supervisors, but will result in a substantial savings in processing time for applicants who have recently moved from another area.

c. At the time the loan dockets were reviewed, every case had to go before the county committee at least twice. On the first trip the county committee made a tentative certification as to the applicant's eligibility. On the second trip, after the loan docket was assembled and the appraisal made, the county committee certified the amount af the loan.

However, with the advent of the packaging concept and credit bureaus, all information preliminary to the committee meeting will be obtained within 15 or 30 days. Loan dockets can then be presented to the county committee for its certification as to the applicant's eligibility and the amount of the loan at the same time. This procedure will eliminate the need for scheduling the loan proceedings through two committee meetings.

Further, the newly proposed bill, H.R. 19436, recommends amending section 508(b) of the Housing Act of 1949 to the effect that county committees *may* certify as to the applicant's eligibility and the amount of the loan. Currently, this section stipulates that the committee *shall* certify. If enacted, the amendment could make the use of county committees optional.

d. FHA recently put into effect a new housing commitment authority which will encourage builders and developers to build housing on a volume basis. This should provide for a wide selection of homes to more efficiently meet the housing needs of rural families.

e. FHA recently developed a set of form letters to expedite responses to requests for more information received from builders, developers and others which should speed up service to the public.

2. *An average of 25.9 days elapsed from the date of county committee certification to the date of loan approval. These delays were attributed to:*

a. County office awaiting receipt of approved plans and specifications. Also, any site and new development plans that need to be completed.

b. A completed Form FHA 440–1, "Payment Authorization," signed by the applicant.

Solution.—a. The packaging concept as described earlier will enable the county supervisor to have more completed plans and specifications and new development plans at the time of application.

b. Consideration is underway to eliminate Form FHA 424–1, "Development Plan," in cases under the construction method when 100% of the construction is covered in Form FHA 424–2, "Dwelling Specifications."

3. *An average of 15.1 days elapsed from the date of loan approval to the date the check was requested. These delays were attributed to:*

a. Limited number of building contractors.

b. Seasonal weather conditions which hamper construction activities.

c. The applicant's inability to acquire settlement funds necessary to close the loan.

d. Discrepancies arising from the title searches by designated attorneys.

e. Unaccounted for delay in the designated attorney's office in giving preliminary title opinion.

Solution.—During August 1969, the FHA instruction regarding the designation of attorneys was amended as follows: "The number of attorneys to be designated in a county will depend upon the volume of real estate loan (and transfer) business in the county . . . only in a rare case will there be less than two attorneys designated in a county." Greater latitude in designating the number of attorneys should result in faster service to the borrowers.

4. *An average of 39.5 days elapsed from the date of check request to the date of loan closing. These delays were attributed to:*

a. In many instances county supervisors ordered loan checks too far in advance and the checks had to be returned and reordered for loan closing. The holding of these idle funds resulted in excessive interest charges to FHA since Treasury borrowings bear interest from the date of the check.

b. Receipt of the loan check in the county office. The study showed that it took from one to three weeks to receive a check from the Finance Office.

c. County office completing arrangements for the contractor (if necessary), borrower and spouse to meet at the attorney's office for loan closing.

d. County office's visit to the property immediately prior to the loan to assure that no new construction was in process.

e. Unaccounted for delay in designated attorney's office in giving final title opinion and scheduling loan closing.

Solution.—a. Greater latitude in the designation of attorneys should accelerate loan processing.

b. FHA is exploring the use of sight drafts by county offices in disbursement of loan funds. The objective is to make funds available only on an as needed basis. The procedure could result in interest savings to both the government and the borrower and make the agency more responsive to the public.

c. FHA eliminated the requirement that county supervisors visit the property prior to making a real estate loan. This change has eliminated a trip to the property and will speed up service to the borrowers.

FORMS SIMPLIFICATION

1. Forms FHA 410–1, "Application," FHA 431–3, "Family Budget," and FHA 410–2, "Supplement to Application," were recently combined into Form FHA 410–4, "Application for Rural Housing Loan."

2. At the time of review, there were four equal opportunity forms necessary in loan dockets under the construction method. Administration Letter 797(400) and the related forms on equal opportunity in FHA construction contracts are being revised. Form FHA 400–2, "Equal Opportunity Clause," is being obsoleted and its provisions incorporated into Form FHA 400–1, "Equal Opportunity Agreement," and Form FHA 424–6, "Construction Contract."

3. Current procedures require completing Forms 426–1, "Valuation of Building," Form FHA 422–3, "Map of Farm," and Form FHA 422–8, "Appraisal Report." All forms are currently prepared coincident to the appraisal form and are six pages in detail. Action is underway towards consolidation of the "Appraisal Report," "Valuation of Building" form, and the "Information on Property (Rural Housing Nonfarm Tract)," Form FHA 444–10.

4. Form FHA 440–16, "Promissory Note (Insured Loan)," stipulates annual installments. Forms 440–9, "Supplementary Payment Agreement," are necessary to convert loan payment arrangements to a 10- or 11-month payment plan. Most individual housing loans provide for the supplementary payment. The combined

annual installment, promissory note, and supplementary payment agreement tend to confuse borrowers who are well acquainted with monthly payments. The use of monthly payment notes will result in elimination of the supplementary payment agreements and provide other operating benefits to the Finance Office. FHA will proceed with developing a monthly payment housing note soon.

5. Form FHA 424-6, "Construction Contract," requires the manual typing of one of three lengthy options that will be used to make payments. Revision of this form is underway to allow for a checkoff and eliminate the need for typing.

COMMENTS

1. There was a lack of consistency between several county offices reviewed. Inconsistencies primarily were the manner in which applications were accepted and processed; judgment factors on the part of county supervisors for ordering loan checks from the Finance Office; completion of running records, inspection reports, and development plans; and followups on delays. FHA recently developed for state use, a comprehensive training guide and a series of 140 color slides to be used in training county office staffs in home designs, plan and blueprint evaluations, and inspection of construction. FHA is also planning indepth training sessions for county personnel to assure understanding and compliance of regulations. The training program should do much to remove these inconsistencies.

2. Language difficulties constituted processing delays in the county offices reviewed in Arizona and Texas. These county offices were reminded that FHA forms currently used in Puerto Rico are in Spanish and are also available for their use. Presently, there are 62 Spanish-speaking employees of FHA in the field, three of which are in Arizona and 17 in Texas.

CONCLUSION

This study reviewed only those loan dockets which were closed prior to any processing changes mentioned in this report. Therefore, we recommend that another review be conducted in approximately six months to determine the effectiveness of these changes.

Validation Study of 502 Rural Housing Loan Program

BACKGROUND

In November 1970, a review was made of FHA's single family housing program. Hereinafter, that review will be referred to as the "initial study." The initial study was conducted in compliance with the FAR objective to streamline operations and reduce program delivery time to the public. The completion date of each processing step was recorded and expanded to give a nationwide average time span between the various processing steps and a total average time in process. Reasons for substantial delays were documented and program changes were instituted to expedite processing.

SCOPE

A validation study of the program has been conducted primarily to substantiate actual processing time savings resulting from the above mentioned efforts to simplify the program. Additional processing delays, coupled with further recommendations for delay avoidance, are included. Loan dockets from 16 states were reviewed. Included were 20 or more dockets from each county office that participated in the initial study.

FINDINGS

Since November 1970, FHA has developed and encouraged the use of packaging for processing individual loan applications. Under this concept, the packager, who must be a bona fide contractor, realtor, or other eligible, develops the preliminary loan docket for the applicant and submits it to the county office. Included in the package are: (1) application, (2) option, (3) map of property, (4) information on property, and (5) dwelling specifications.

The packager also submits the verification of employment to the applicant's employer with instructions for the employer to submit the completed form directly to the county office.

Significant reduction in processing time has been experienced under packaging. However, most states have not utilized packaging to its full potential. For example, Arizona packaged every loan reviewed while Arkansas packaged only 3 of 178. Seven states reviewed packaged no applications.

The following table depicts the average processing time by state and distinguishes between total time using packaging and time without packaging. If the state was included in the initial study, its processing time at November 1970 is also given. All dockets selected for the follow-up study were closed in Fiscal Year 1972.

502 RURAL HOUSING LOAN PROGRAM

[Average processing time in days]

	National average		Application to certification	Certification to approval	Approval to check request	Check request to closing	Total days
	Cases	Year					
Study:							
Initial	241	1970	78	26	15	40	159
Validation	1,112	1972	38	24	13	29	104
(a)	827	[1] 1972	43	25	15	26	109
(b)	285	[2] 1972	24	23	9	37	93
State:							
Arizona	102	1970	63	28	0	47	138
	150	[2] 1972	25	17	0	45	87
Mississippi	54	1970	106	12	33	36	187
	145	[1] 1972	52	23	35	21	131
	23	[2] 1972	24	22	25	27	98
Pennsylvania	11	1970	103	37	30	26	196
	11	[1] 1972	61	69	31	31	192
	9	[2] 1972	63	53	33	33	182
Texas	41	1970	76	45	18	32	171
	64	[1] 1972	42	39	16	25	122
	14	[2] 1972	21	39	31	23	114
Virginia	33	1970	74	16	23	34	147
	9	[1] 1972	16	62	35	21	134
	26	[2] 1972	19	43	13	24	99
Alabama	58	[1] 1972	31	42	9	31	113
	18	[2] 1972	29	42	14	27	112
Arkansas	175	[1] 1972	44	12	10	23	89
	3	[2] 1972	10	5	67	16	98
California	0	[1] 1972					
	20	[2] 1972	19	16	6	37	78
Delaware	11	[1] 1972	30	51	17	24	122
	0	[2] 1972					
Georgia	19	[1] 1972	49	21	8	29	107
	0	[2] 1972					
Indiana	78	[1] 1972	36	30	0	36	102
	0	[2] 1972					
Kentucky	90	[1] 1972	34	19	2	30	85
	0	[2] 1972					
Louisiana	24	[1] 1972	27	30	21	21	99
	0	[2] 1972					
Maryland	42	[1] 1972	42	21	8	25	96
	0	[2] 1972					
Ohio	15	[1] 1972	59	43	0	25	127
	0	[2] 1972					
Tennessee	86	[1] 1972	50	16	17	23	106
	22	[2] 1972	8	10	17	27	62

[1] Without packaging.
[2] With packaging.

PROCESSING DELAYS

1. Date of application to date of county committee certification: *In days*
   - a. National average — 38
   - b. Average—no packaging — 43
   - c. Average—packaging — 24

The primary reasons for these processing times follow:

a. Applicants submitting applications direct to the county office continue, as in the past, to experience problems in furnishing dwelling specifications and real estate options. Thirty-seven (37) applicants deferred an average of 95 days in obtaining dwelling specifications. Forty-five (45) applicants took an average of 99 days to acquire options to purchase real estate.

This problem is not experienced with packaging of applications. Under this method, the dwelling specifications and/or option are submitted to the county office with the application.

b. On occasion, delay is experienced due to the failure of the applicant's employer to promptly submit the verification of employment. This problem exists under both methods of handling applications. Eighteen (18) cases averaged 95 days in providing employment verification. It must be mentioned that this delay is only experienced in a very few cases. However, it is a potential delay for each application. Normally, two to three days are taken in providing this information.

c. The county committee contributes to the processing time of these loans. Committees convene no more often than weekly. Most convene bi-weekly. Some committees convene only monthly. Therefore, applications can remain on hand up to 30 days awaiting committee certification.

d. Applicant indecision to select a site, a home, a home plan, or a contractor contribute to processing time. One borrower required ten months to select a suitable site for his home.

e. The county committee on occasion will refrain from certifying an applicant eligible for FHA assistance. This does not always mean that the applicant could not become eligible through certain corrective measures. An example would be the committee requirement for the applicant to obtain competitive bids from a variety of contractors. If the applicant has the potential of obtaining committee certification at a later date, the application remains on file in the county office.

Solution.—a. The agency must promote the use of packaging loan applications. Current procedure provides for packaging but does not advance it as the most efficient method. Packaging has been very successful in states such as Arizona and California. Most other states have not experienced similar success either due to lack of encouragement from the State Office or improper explanation of the concept to potential packagers. Proper training of both FHA personnel and potential packagers coupled with more encouragement from the National Office to use packaging can remedy much of the loan processing delay experienced at this step of processing.

b. Applicants should be persuaded to request their employers to expedite preparation and submission of verifications of employment. This function involves only the applicant and his employer and is not directly controllable by FHA.

c. Consideration should be given to the discontinuance of the use of county committees for certifying housing loans on non-farm tracts. The use of the committee is presently waived during the month of June.

d. The other delays at this stage of processing are considered uncontrollable by FHA.

2. Date of county committee certification to date of loan approval:

	In days
a. National average	24
b. Average—no packaging	25
c. Average—packaging	23

The primary reasons for these processing times follow:

a. In many cases the appraisal was not made of the proposed property within a reasonable period of time. For a sample of 45 cases, the appraisal was made an average of 33 days subsequent to receipt of the dwelling specifications and/or option. This delay is attributable to two factors: (1) poor work scheduling within county offices, and (2) the volume of work required of the county supervisor. Other non-controllable factors such as poor weather conditions also contribute.

b. A problem exists in scheduling an office visit for applicants immediately prior to loan approval. Applicants are required to sign the Payment Authorization and to prepare the request for title opinion from the designated attorney. If the applicant cannot immediately come to the county office at this stage, delay is experienced.

c. The approval of several loans was held up due to pending development of water or sanitary waste disposal systems in the area of the building site.

Solution.—a. FHA is considering the option of contracting fee appraisers to perform home appraisals. Contract money is proposed in FHA's FY 1973 budget. However, the funds are limited and other contract services may receive priority over appraisals. Training should be administered to all county supervisors in the areas of both work scheduling and appraisals. FHA has opened an agency training center and the facilities will be used for these as well as other training needs.

b. Proposal has been made to have the applicant sign all preliminary loan papers upon his first contact with the county office. This would eliminate the need for subsequent office visits prior to loan closing.

3. Date of loan approval to date of check request:

	In days
a. National average	13
b. Average—no packaging	15
c. Average—packaging	9

The reasons for these processing times follow:

a. Some states immediately order the loan check upon approval of the loan. These states use title insurance for all real estate loans. Most states, however, do not order the check until a preliminary title opinion is received from the designated attorney. A sample of 30 cases required an average of 28 days within the attorney's office in performing title search.

b. The applicant's indecision on selecting an attorney for title search is a contributor to processing time. The applicant must personally select the attorney and request his services.

c. The final settlement of applicant divorce proceedings occasionally delayed the ordering of loan funds.

Solution.—a. FHA has increased the number of attorneys designated to serve each county office. Consideration should be given to further augmenting the number of designated attorneys. If an attorney knows he monopolizes the title work of FHA applicants, he sometimes loses all incentive to expedite his services to this select market.

b. The other deterrents at this stage are considered non-controllable.

4. Date of check request to date of loan closing:

	In days
a. National average	29
b. Average—no packaging	26
c. Average—packaging	37

The reasons for these processing times follow:

a. The scheduling of loan closing dates by the majority of county offices is postponed until the receipt of the loan check. An average of 16 days transpires in the issuance of a loan check. However, 16 days is not the typical check delivery time. Check delivery ranged from a low of 5 to an excess of 38 days. Since no consistency prevailed in the check distribution times, the scheduling of loan closing was made after receipt of the check.

b. The receipt of preliminary title opinions frequently caused delay of loan closing.

c. On several occasions, applicants requested that the loan be closed at a later date, due to their inability to acquire funds for preclosing expenses.

d. Several loans required a survey of the building site prior to loan closing.

e. On one occasion, repairs being made to the home to be purchased prevented immediate closing of the loan.

f. Packaged applications averaged 11 days longer in this processing stage than other applications. The majority of the packaged loans were closed with title insurance binders. Title insurance typically took more time than designated attorneys handling of title services.

Assumption can also be made that the more expedient processing of packaged applications in the other stages of process offset the benefit often received from concurrent performance of other loan making activities. For example, states specializing in packaged applications order loan checks immediately upon loan approval. States not using packaging order checks after receipt of preliminary title opinion. Hence, the entire time for title services is included in this stage for packaged applications. For other applications, the title work is spread between the last two processing stages.

Solution.—a. The time requirements for delivery of loan checks must be made uniform. Only when check receipt is made predictable within the county office can loan closing be scheduled prior to check receipt.

There are two possible contributors to the above-mentioned inconsistencies in check distribution. These are (1) a requirement in some State Offices that approved dockets be submitted to the State Office prior to submission to the Finance Office, and (2) the volume of work within the Finance Office causing delayed scheduling of check orders from Treasury. It is recommended that a study be undertaken to determine which of the above contributes to check delivery delays and appropriate remedial action be undertaken.

b. Provision is made under FHA loan authority for advancing such funds if the borrower is unable to supply them himself. Proper planning by county supervisors with applicants during loan processing will eliminate this delay.

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c. The designation of more attorneys to service FHA borrowers will diminish most delays in providing title services.

d. Other delays at this stage of processing are basically uncontrollable by FHA.

SUPPLEMENTAL COMMENTS

1. FHA Instruction 444.1 should be clarified to specify the minimum number of inputs required to complete any one stage of loan processing. Many inconsistencies exist among county supervisors in their individual requirements for proceeding with loan processing. Some supervisors prefer to perform real estate appraisals prior to county committee certifications. Others require only the application and verification of employment prerequisite to certification. Some appraisals made prior to certification are performed simply as a matter of convenience when the committee meeting is not scheduled immediately and the supervisor determines that the applicant will be certified eligible. However, some supervisors refuse to proceed with other loan making activities such as appraisals before the committee meeting. FHA Instruction 444.1 should be revised to clarify such inconsistencies in processing.

2. Detailed discussions were held with various builders and developers to determine whether or not program changes were improving the program. Mr. Jerry Clasco, Service Contractors, Inc., Phoenix, Arizona, stated that "FHA's packaging of applications and conditional commitments are an improvement. These changes allow builders to (1) plan and build on a volume basis for FHA which helps to hold down rising prices due to better scheduling of work, and (2) become acquainted with purchasers at an early stage which helps to eliminate future customer preference problems."

Mr. Charles Neidhart, President, Charles Neidhart Enterprises, Inc., Phoenix, Arizona, commented in a similar manner about the program. Most builders, however, were disturbed about the increasing delays being encountered in the FHA county offices due to the rapid expansion of the housing program. Both builders offered to furnish clerical help to the county offices to keep the paperwork moving.

The rapid increases in FHA's loan and grant programs coupled with a reduced personnel situation has created backlog delays in many county offices. These problems have necessitated operational improvements and a greater need to bring the private sector further into certain areas of the program for assistance. These areas under study are the use of FHA designated attorneys and approved title insurance companies closing real estate loans, the use of fee inspectors and appraisers, and bank servicing of some existing loans. FHA is also conducting extensive studies into its organization and staffing requirements to determine the most appropriate pattern for the accomplishments of its assigned functions.

Question 2. Are there significant backlogs of unprocessed applications at some FmHA offices? If so, please give details.

Answer. Attached is a copy of a June 30, 1974, report showing the number of applications received during 1973 and 1974, and the number of applications on hand by states as of June 30, 1974, for the section 502 rural housing (RH) program. (The report follows:)

TABLE 6.—HOUSING PROGRAMS: APPLICATIONS FOR INITIAL RURAL HOUSING LOANS, 1974 AND 1973 FISCAL YEARS THROUGH JUNE 30

State	Rural housing											
	Total				On nonfarm tracts-received during fiscal year through June 30				Sec. 502 from senior citizens			
	Received during fiscal year through June 30				1974		1973		Received during fiscal year through June 30			
	1974	1973	Percent change 1973 to 1974	On hand June 30, 1974	Number [1]	As percent of total	Number [2]	As percent of total	1974	1973 [1]	Percent change 1973 to 1974	On hand June 30, 1974 [2]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
U.S. Total	213,737	215,084	−1	70,437	201,349	94	199,555	93	3,430	4,300	−20	1,031
Alabama	5,269	8,342	−37	1,591	5,058	96	7,507	90	307	540	−43	71
Arizona	2,742	3,162	−13	805	2,735	100	2,926	93	73	70	4	18
Arkansas	6,651	8,749	−24	1,671	5,549	83	7,559	86	230	431	−47	65
California office:												
California	3,389	4,247	−20	986	2,506	74	4,213	99	114	94	21	51
Hawaii	556	524	6	262	540	97	496	95	47	31	52	23
Nevada	212	142	49	63	139	66	137	96	0	2	....	0
Colorado	2,846	1,704	67	1,223	2,670	94	1,661	97	13	16	−19	3
Delaware office:												
Delaware	932	587	59	237	932	100	585	100	0	2	....	0
Maryland	2,072	1,586	31	595	1,935	93	1,566	99	10	8	25	6
New Jersey	2,419	1,435	69	796	2,411	100	1,282	89	7	4	75	1
Florida	4,763	5,194	−8	1,323	4,734	99	5,127	99	80	116	−31	21
Georgia	5,848	7,570	−23	1,600	5,778	99	6,858	91	45	74	−39	4
Idaho	5,074	3,843	32	1,358	4,939	97	3,566	93	52	33	58	14
Illinois	7,267	6,487	12	1,853	7,140	98	6,309	97	26	50	−48	0
Indiana	6,861	5,718	20	1,926	6,314	92	4,966	87	16	119	−87	4
Iowa	5,269	5,048	4	1,472	4,996	95	4,636	92	44	64	−31	11
Kansas	3,217	2,675	20	1,290	2,523	78	2,203	82	22	24	−8	3
Kentucky	7,637	6,559	16	1,826	7,230	95	6,028	92	79	70	13	21
Louisiana	2,775	2,811	−1	955	2,698	97	2,728	97	68	72	−6	18
Maine	8,329	5,333	56	3,752	8,283	99	5,191	97	21	29	−28	7
Michigan	7,402	6,917	7	2,147	6,863	93	6,352	92	287	24	....	53
Minnesota	2,752	2,865	−4	644	2,410	88	2,141	75	5	10	−50	1
Mississippi	9,027	10,391	−13	2,835	7,936	88	9,743	93	482	604	−20	176
Missouri	6,108	7,017	−13	2,084	5,417	89	9,945	85	170	308	−45	61
Montana	680	564	21	267	583	86	439	78	8	10	−20	5
Nebraska	1,929	1,354	42	884	1,738	90	1,091	81	8	2	300	5
New Mexico	1,785	1,835	−3	435	1,648	92	1,671	91	18	24	−25	8
New York	6,882	7,192	−4	3,531	6,866	100	6,963	97	16	5	220	6

TABLE 6.—HOUSING PROGRAMS: APPLICATIONS FOR INITIAL RURAL HOUSING LOANS, 1974 AND 1973 FISCAL YEARS THROUGH JUNE 30—Continued

State	Rural housing											
	Total				On nonfarm tracts-received during fiscal year through June 30				Sec. 502 from senior citizens			
	Received during fiscal year through June 30				1974		1973		Received during fiscal year through June 30			
	1974	1973	Percent change 1973 to 1974	On hand June 30, 1974	Number [1]	As percent of total	Number [2]	As percent of total	1974	1973 [2]	Percent change 1973 to 1974	On hand June 30, 1974 [3]
	(1	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
North Carolina	13, 238	14, 673	−10	4, 012	13, 086	99	14, 358	98	135	189	−29	41
North Dakota	1, 719	1, 760	−2	870	1, 485	86	1, 166	66	4	9	−56	2
Ohio	5, 704	5, 955	−4	2, 235	5, 210	91	5, 901	99	15	21	−29	4
Oklahoma	6, 370	5, 769	10	2, 094	6, 036	95	5, 040	87	142	172	−17	51
Oregon office:												
Alaska	314	274	15	137	316	100	274	100	5	1	400	5
Oregon	2, 760	1, 434	92	852	2, 240	81	1, 621	113	48	40	20	13
Pennsylvania	2, 959	4, 017	−26	866	2, 934	99	3, 902	97	5	8	−38	2
South Carolina	6, 275	8, 271	−24	1, 295	5, 269	84	8, 031	97	79	106	−25	23
South Dakota	1, 297	1, 525	−15	462	1, 108	85	1, 008	66	15	16	−6	7
Tennessee	8, 793	9, 152	−4	3, 373	8, 426	96	8, 777	96	164	202	−19	43
Texas	7, 203	8, 337	−14	2, 141	6, 980	97	8, 048	97	251	360	−30	59
Utah	2, 286	1, 334	71	660	2, 263	99	1, 291	97	14	9	56	3
Vermont office:												
Connecticut	1, 571	905	74	500	1, 571	100	905	100	2	1	100	1
Massachusetts	1, 414	792	79	395	1, 405	99	789	100	1	3	−67	1
New Hampshire	1, 211	1, 014	19	415	1, 210	100	1, 002	99	6	3	100	0
Rhode Island	255	96	166	87	255	100	93	97	1	0		0
Vermont	2, 188	1, 918	14	631	2, 146	98	1, 666	87	3	7	−57	1
Virginia	10, 508	10, 647	−1	3, 693	10, 426	99	10, 395	98	166	175	−5	65
Washington	2, 936	2, 930	(4)	944	2, 883	98	2, 288	78	17	26	−35	6
West Virginia	6, 623	6, 586	1	3, 196	6, 554	99	6, 506	99	57	60	−5	30
Wisconsin	3, 393	3, 915	−13	1, 548	3, 231	95	2, 885	74	6	11	−45	1
Wyoming	932	713	31	242	905	97	681	96	10	6	67	2
Puerto Rico office:												
Puerto Rico	2, 843	3, 074	−8	1, 216	2, 587	91	2, 902	94	36	38	−5	15
Virgin Islands	252	136	85	162	52	100	136	100	0	1		0

[1] Included in col. 1; also applications reported in col. 9 are included in col. 5 as appropriate.
[2] Included in col. 2; also applications reported in col. 10 are included in col. 7 as appropriate.
[3] Included in col. 4.
[4] Less than 0.50 percent.

Source: Form FmHA 492-3, Table II.

Question 3. Are you aware of any recent instances in which lack of personnel has encouraged local offices to process applications without a thorough review of the borrower's circumstances? If so, please give details.

Answer. The County and Assistant County Supervisors are responsible for ordering credit reports for RH applicants when information submitted on the application indicates that the applicant will likely be eligible for a loan. The County Supervisor obtains information from other sources when information contained in the credit report is not sufficient to enable him to determine the applicant's eligibility for a loan. We believe that existing personnel are properly evaluating applicants' circumstances in this respect.

Question 4. Please provide a copy of the FmHA regulation, instruction or other document(s) setting forth its policy as to approval of new conditional commitments or loans in subdivisions or localities where FmHA already has (or knows it soon will have) houses in inventory which will be difficult to sell at prices comparable to the FmHA investment.

Answer. FmHA does not have specific instructions prohibiting the issuance of conditional commitments or the making of loans in subdivisions or localities where FmHA already has (or knows it soon will have) houses in inventory which will be difficult to sell at prices comparable to the FmHA investment. FmHA Instruction 444.9, "Issuance of Conditional Commitments for Rural Housing Loans," however, authorizes the granting of conditional commitments only when there is an immediate and ready market for homes in the locality. The total number of commitments outstanding in a county will not exceed the number on which the County Supervisor can reasonably expect to be able to approve RH loans within 3 months after the houses covered by the commitments are completed, considering the availability of loan funds and the backlog of applications in the county office.

Question 5. Are you aware of any instances in which pressure by packagers has contributed to the making of unsound loans? If so, please give details.

Answer. We are not aware of any instances in which pressure by packagers has contributed to the making of unsound loans.

Question 6. Do FmHA procedures allow a packager or builder to serve as a credit reference for the borrower? If so, under what circumstances and are any special precautions taken to insure that the reference is objective and reliable?

Answer. FmHA procedures provide that the eligibility of an applicant will be determined based on information obtained from the credit report and from dependable and unbiased sources such as creditors, bankers, merchants, employers, and landlords, and, when appropriate, by visits to applicant's farm. When information is obtained through written correspondence, the person providing the information is to show his relationship to the applicant by indicating whether he is an employer, landlord, friend, business associate, relative, neighbor, or creditor.

PACKAGING

Question 1. Do current FmHA regulations (or other Federal laws or regulations) prohibit packagers from making undisclosed payments or other inducements to induce prospective borrowers to apply for FmHA housing loans? If not, are there any plans to prohibit such undisclosed payments or inducements?

Answer. FmHA regulations prohibit packagers from charging applicants for services provided in packaging RH applications. Packagers are now required to sign a form indicating that the information they provided is complete and correct and the form contains, just below the packager's signature, the statement indicating the penalty for giving false information. Inducements paid and not reported would, in our opinion, violate the requirement for disclosing all the conditions of the loan. Also, RH applicants who receive a loan to buy a dwelling or to buy a lot on which a dwelling is to be built, must sign Form FmHA 440-45, "Nondiscrimination Certificate." One covenant of the nondiscrimination certificate reads as follows: "The decision to buy the particular house or lot to be financed with a loan was mine and no person has coerced or unduly influenced me to buy this particular property." We believe the making of an undisclosed payment or other inducement by a packager to a prospective borrower to induce the applicant to apply for a FmHA housing loan would be reason to debar the packager from other participation in the FmHA programs. The acceptance of an inducement by the RH applicant would be a violation of the covenant contained on Form FmHA 440-45 and a justified reason for liquidation of the FmHA loan.

Question 2. In counseling prospective home buyers, are FmHA personnel required to explore specific areas necessary for successful home ownership (such as financial ability of borrower to handle maintenance costs, utilities and other expenses associated with home ownership)? If so, please give details and provide a copy of any checklist or other instruction used to insure that specified areas are covered.

Answer. FmHA personnel in determining the eligibility of RH applicants must determine that the applicant's income is within the limits established by FmHA but that the family has sufficient dependably available income to repay the loan, pay taxes and insurance, maintain the house, and meet all of their other family living expenses. This is accomplished by completing the family budget section of Form FmHA 410–4, "Application for Rural Housing Loans—Nonfarm Tract," by supplementing the information contained on Form FmHA 410–4 by completing Form FmHA 431–3, "Family Budget" in cases where information submitted is not complete or when the loan approval official determines that more detailed credit counseling is needed by the family in order to enable them to be successful with the proposed loan and, in the case of farmers, by completing Form FmHA 431–2, "Farm and Home Plan."

DEFAULT AND DELINQUENCY PROBLEMS

Question 1. Statistics furnished the subcommittee last year (page 293) indicated the percentage of borrowers behind schedule on January 1 rose from 11% in 1971 to 15% in 1973. What is the comparable figure for January 1, 1974?

Answer. 15.8 percent of active borrowers owing individual RH loans were behind schedule on their payments as of January 1, 1974.

SCREENING OF BUILDERS

Question 1. What information is required to be supplied by a builder before doing business with a local office for the first time?

Are new builders required to disclose whether or not they have previously done business with FmHA or HUD and, if so, is inquiry made to determine whether there has been any adverse experience associated with such previous dealings? If so, please provide copies of any forms and/or instructions relating to this requirement.

Answer. The County Supervisor is responsible to obtain the necessary information to ascertain that the builder is qualified and can complete the construction in accordance with the contract. Items such as his experience, financial condition and the kind of work he has done in the past are considered.

In carrying out the County Supervisor responsibilities in connection with the above paragraph, the builder's past experience will be determined.

Question 2. Is there any procedure for giving special attention to transactions involving builders whose reputations suggest they may be the source of problems, even though no suspension or debarment is in effect? If so, please provide details.

Answer. When evidence indicates that a builder's reputation is such that problems may develop, we have actions set in the procedures to protect the borrower and the government. For example, a County Supervisor can, if warranted:

a. Require a performance bond.

b. Make partial payments so that adequate funds are withheld to take care of any deficiencies.

c. Make more than the normally required number of inspections.

Question 3. Does FmHA have any regulations or procedures for warning its personnel about builders likely to cause problems even though such builders may not yet have been suspended or debarred? If so, please describe.

Answer. Each State Office receives a list of contractors who have been determined to be ineligible, debarred or suspended from performing further construction work with this agency. We cannot refuse to do business with a contractor that does not fall within the above three categories, however, as stated in paragraph 2 above, there are procedures set forth to cover instances where we question the contractor's capability.

VIRGINIA/SOUTH CAROLINA

Question 1. Can the national office offer any explanation of or insight concerning the striking difference in statistics reported for Virginia and South

Carolina concerning the number of houses in inventory, liquidation actions, long-delinquent loans, etc.?

Question 2. According to testimony at the hearing, the foreclosure process is significantly easier in Virginia than South Carolina. However, even though the reverse might be expected, the number of foreclosures in South Carolina is many times greater than in Virginia.

What explanation, if any, does the national office have for this?

Answer. In response to your request, we offer the following comments on the differences in statistics reported for Virginia and South Carolina concerning the number of houses in inventory, liquidation actions, on delinquent loans, and number of foreclosures.

Attached is data showing the number of initial Section 502 loans made in South Carolina and Virgina during fiscal years 1969–1974. This data indicates that during fiscal years 1970–1972, the housing program in South Carolina increased rapidly. Many of the families receiving loans had adjusted incomes of less than $3,000. Some of these families have been unable or unwilling to repay the housing loan and became seriously delinquent. A concerted effort, therefore, has been made in South Carolina to service all housing loans and when a determination was made that the families would not or could not repay the indebtedness, liquidation actions to protect the Government's interest were taken. Members of our South Carolina RH staff have indicated that the policy now being followed in South Carolina is that when a borrower becomes two or more payments behind schedule on his loan, the County Supervisor attempts to get a firm understanding with the borrower concerning future repayment of the RH loan. In cases where the borrower does not meet the conditions of the agreement reached liquidation of the loan is required.

The rural housing program in Virginia during fiscal years 1970–1972 increased substantially but not at the same rate as in South Carolina. Fewer loans were made to families with very low adjusted incomes, and less liquidation action has been needed to service the loans. You will also note that during fiscal year 1973–1974, the RH program in South Carolina has decreased significantly. During the fiscal year of 1973, the RH program in Virginia continued to increase and although in fiscal year 1974 fewer loans were made, the decrease was not so severe as in South Carolina. A larger proportion of the County Supervisor's time was used to make loans in Virginia during the last two fiscal years and less time has been used in servicing loans. This accounts for the striking differences in statistics reported for the two states.

State or Nation by fiscal year	Number initial obligations	Amount initial obligations	Average adjusted family income	Percent of borr. with adjusted family income under $3,000
United States:				
1969	46,512	474,863,680	(1)	(1)
1970	65,033	745,838,540	5,537	11.1
1971	103,824	1,348,549,020	5,432	12.0
1972	106,878	1,544,730,710	5,471	10.7
1973	109,183	1,708,247,710	6,218	6.7
1974	86,543	1,565,638,490	(1)	(1)
South Carolina:				
1969	1,454	14,504,160	(1)	(1)
1970	3,195	38,033,000	4,881	17.7
1971	7,066	97,159,930	4,352	25.0
1972	6,317	92,729,540	4,385	21.5
1973	4,428	68,778,380	5,420	10.0
1974	2,323	38,090,040	(1)	(1)
Virginia:				
1969	1,215	12,882,390	(1)	(1)
1970	1,760	20,575,960	5,071	12.0
1971	3,423	44,384,890	5,232	11.9
1972	5,654	88,551,660	4,943	12.2
1973	6,886	121,124,810	5,478	9.8
1974	5,630	110,627,930	(1)	(1)

1 No information available.

VIRGINIA STATE OFFICE

Question 1. Please provide the best estimate of each local office as to the number of FmHA financed homes *not in inventory* which are vacant in the area served by the office.

In the event the State office believes any of the local office estimates are not reliable, this should be indicated.

Answer. The best estimate of the number of vacant houses financed by Farmers Home Administration both in inventory and not in inventory is attached. This figure is of course subject to change as the process of servicing the loans will create changes.

Vacant houses financed by FmHA

[Estimated—Includes those in inventory and not in inventory]

Abingdon	0	Harrisonburg	1
Appomattox	5	Jonesville	0
Bedford	3	Kenbridge	4
Ashland	0	Lebanon	5
Charlottesville	0	Lexington	4
Chatham	2	Onancock	4
Christiansburg	4	Pulaski	4
Culpeper	10	Petersburg	10
Cumberland	2	Providence Forge	3
Chase City	1	Rocky Mount	7
Courtland	2	Staunton	2
Daleville	1	Smithfield	12
Emporia	3	Tazewell	0
Fredericksburg	2	Tappahannock	6
Front Royal	2	Wytheville	3
Farmville	0	Warsaw	4
Galax	1	Woodstock	8
Gate City	2	Williamsburg	2
Halifax	0	Suffolk	14

Question 2. Please advise whether or not the statement made by Mr. Jones concerning vacant homes and unpaid loans in the Suffolk office area was accurate at the time he made it in late 1973, giving details.

Please give the number of vacant FmHA homes in the Suffolk office area a) in inventory, and b) not in inventory at the present time.

Answer. Without a great deal of research it would be impossible to determine the accuracy of the statements made by Mr. Jones concerning the vacant homes and unpaid loans that existed in 1973. The statements were based more on general opinion rather than facts. Most of his statements were out of frustration and discord with the District Director. His subsequent resignation after only two months on the job which he had requested indicated to me his inability to cope with a situation we all were aware had become a serious one. Credence to his observations under these conditions is unacceptable to me.

The situation at present shows 14 vacant houses all not in inventory and the delinquency as of August 31, 1974 as reported by the Finance Office is:

	Number	Percent
Total delinquent	471	47.2
Delinquent 1 payment	112	11.2
Delinquent 2 payments	79	7.9
Delinquent 3 payments	35	3.5
Over 3 payments	245	24.6

Question 3. Please provide a more detailed statement concerning the operations of Windsor Development Co. and related firms and individuals in Virginia.

Answer. Operations of Windsor Development Company (Windsor Custom Builders, Inc., Windsor Builders, Inc., all hereafter referred to as Windsor):

Windsor started working in Virginia in the Fall of 1971 on a small scale and initially did not come to the attention of the State Office. In early 1972 the company decided to expand and contacted the then Chief of Housing for assistance and advice. An inspection of the previous work by Windsor was made and corrections and changes in method of operations were pointed out to the company if they were to be permitted to continue to build under the FmHA program.

The changes were made or promises that the changes would be incorporated into their operation were made; however, the company continued to take every advantage of the letter of the law they could use to their advantage.

In September 1972 the District Director reported problems with Windsor and he was directed to take action on the problems. A satisfactory solution was not found and on March 1, 1973 instructions were sent to the County Supervisors doing business with Windsor not to close any loans to Windsor until all construction deficiencies had been corrected. In mid-April the County Supervisors reported the deficiencies had been corrected and on April 18, 1973 authority to close loans was granted. However, certain restrictions were imposed as future construction must be under the Conditional Commitment and not by contract. The primary purpose of this move was to put FmHA in a position to refuse acceptance of the house if not satisfactory without having a borrower "in the middle" during construction.

Future development showed the action taken in March did not solve the problems with Windsor so on September 17, 1973 initial steps were taken to bar Windsor from future operations with FmHA as authorized by FmHA Instruction 424.3 and 444.12. All construction was stopped at that time; however, the final suspension action was not followed through as information was received from OIG that Windsor was a subject of investigation and administrative action against the company should not be taken. Since September 17, 1973 loans have been closed on three houses that were under construction on conditional commitments prior to September 17, 1973.

To the best of my knowledge Windsor Builders and the principals of the company are not presently doing any business in the State of Virginia under any other corporate name.

According to the best information available without a very detailed study of the records of the County Offices concerned, Windsor constructed 75 houses in Virginia. Of these, 134 accounts are delinquent to varying degrees; 26 are considered as in default as some type of "forced" liquidation will be necessary, most will be or have been by transfer, and it is reasonable to expect approximately 25 additional loans will default. In August, 17 Windsor constructed houses were vacant, however, five were in the process of transfer and caretakers were being obtained for four others.

Most of the loans transferred were transferred in a delinquent status. However, no transferee has become a serious problem or a default.

No loss to the taxpayer has been incurred on the loans transferred and no loss is anticipated on those presently in default and under liquidation action—transfer or foreclosure.

Windsor directed its sales to the low income urban resident and in some cases the borrower refused to move after the loan was closed due to the location of the house and lack of transportation to work, and other conveniences of the urban community. There is no known case of fraud on the part of the borrower in these cases, but victims of excessive sales and inadequate briefing by FmHA personnel.

Question 4. Please advise whether any action was taken which had the effect of preventing Nathan Cohen and/or firms with which he was associated from selling homes under FmHA financing in Virginia and, if so, give details.

Answer. Nathan Cohen. In early 1972 the past history of Nathan Cohen was brought to the FmHA attention through articles published in the newspapers of the area where he was working. The President of Windsor, Robert Price and Cohen were requested to meet with the State Director. Assurance was given that Cohen was strictly an employee of Windsor (a construction foreman) and with that understanding no action was taken at that time as it was pointed out (and later confirmed) that Cohen was not on any list barring his working in the housing field under Government programs.

Later in the fall of 1972, comments and public opinion made it desirable that Mr. Cohen not work under the FmHA program, therefore, the company was requested to cease the employment of Mr. Cohen in connection with FmHA loans and construction. The President of Windsor agreed that Cohen would not work in Virginia, but that he would remain in the Windsor employment. To my knowledge Mr. Cohen has not worked in Virginia on FmHA related projects since that time.

Question 5. Unless already given in response to question 3 above, please provide details concerning the experience with Windsor Development and related firms, including specifically:

(*a*) the number of loans which became defaulted or seriously delinquent. (If a loan became defaulted and was transferred, this should be included even if the transferee is now paid up; if the transferee subsequently became seriously delinquent or defaulted this should be noted also.)

(*b*) Whether or not any loss to the taxpayers has been incurred or is anticipated, giving details.

(*c*) details concerning any situation(s) in which borrowers never moved in after the loan was made.

Answer. Information requested is included in item 3, above.

In addition to the above, the following supplemental information is requested:

Question 6. Any further explanation or insight you can offer concerning the striking difference in statistics reported for Virginia and South Carolina concerning the number of houses in inventory, liquidation actions, long-delinquent loans, etc.

Answer. In reply to your request as to why the difference in the FmHA programs in Virginia and South Carolina, I do not feel I am in a position to make a comparison as I am not informed on the South Carolina conditions or programs. As to the conditions affecting the Virginia situation, I feel the reason for the low inventory and the prediction that it will remain very low is due to the economy of the State of Virginia. Virginia has had an unusual influx of manufacturing concerns of many various types of industry which has maintained a good economy and low unemployment—a rate of approximately ½ the national average.

The demand for housing is much greater than the present rate of construction, particularly in the rural areas where FmHA operates. This is evidenced by the approximately 4,800 applications on hand July 1, 1974.

The liquidation rate in Virginia through foreclosures is low as most problem cases can be transferred if the owner is willing if there are no judgments or other legal cloud to the title. Most foreclosures are caused by divorce or separation.

The long-term delinquency rate is high, but is being reduced where sufficient manpower can be directed to servicing and less to loan processing. Where there is a back-log of applications, the pressure of course, is on loan making to serve the public.

The per capita income by county was requested at the hearings in Washington, and that information is attached. This might give a basis for the difference in the Virginia-South Carolina programs.

Per capita personal income by SMSA's and non-SMSA counties in Virginia 1972 [1]

County	Dollars	County	Dollars
SMSA's:		Non-SMSA counties—Continued	
Lynchburg	3,730	Culpeper	3,502
Newport News-Hampton	4,347	Cumberland	2,618
Norfolk, Virginia Beach Portsmouth	4,184	Dickenson	2,531
Petersburg-Hopewell	3,842	Essex	3,374
Richmond	5,065	Fauquier	4,541
Roanoke	4,268	Floyd	2,613
Non-SMSA counties:		Fluvanna	3,195
		Franklin	2,906
Accomack	3,502	Frederick	3,803
Albemarle	4,115	Giles	3,260
Alleghany	3,648	Grayson	2,345
Amelia	2,946	Greene	2,890
Augusta	3,853	Greensville	3,128
Bath	3,703	Halifax	2,934
Bedford	4,073	Henry	4,154
Bland	2,753	Highland	2,690
Brunswick	2,717	Isle of Wight	4,175
Buchanan	2,534	King and Queen	3,553
Buckingham	2,430	King George	4,671
Caroline	3,437	King William	4,772
Carroll	3,043	Lancaster	3,803
Charlotte	2,640	Lee	2,124
Clarke	3,970	Louisa	3,980

See footnote at end of table.

Per capita personal income by SMSA's and non-SMSA counties in Virginia 1972[1]—Continued

County	Dollars	County	Dollars
Non-SMSA counties—Continued		Non-SMSA counties—Continued	
Lunenburg	3,051	Rappahannock	3,520
Madison	2,803	Richmond	3,485
Mathews	4,222	Rockbridge	3,110
Mecklenburg	3,058	Rockingham	3,719
Middlesex	3,148	Russell	2,525
Montgomery	3,113	Shenandoah	3,474
Nelson	2,797	Smyth	2,837
New Kent	2,553	Southampton	3,174
Northampton	2,993	Spotsylvania	3,923
Northumberland	2,989	Stafford	3,615
Nottoway	3,470	Surry	2,475
Orange	3,947	Sussex	3,232
Page	3,184	Tazewell	3,152
Patrick	2,615	Warren	3,762
Pittsylvania	3,423	Westmoreland	2,865
Prince Edward	3,179	Wise	2,998
Pulaski	3,199	Wythe	2,903

[1] 1972; the most recent figures available.

Source: Survey of Current Business, U.S. Department of Commerce, May 1974.

Question 7. A more detailed statement concerning the reasons for the relatively high proportion of loans which are more than six months delinquent in a number of Virginia offices. Please indicate specifically what efforts, if any, the State office has made to analyze the reasons for relatively high concentrations for such long-term delinquencies in some offices, providing copies of any written analyses.

Answer. The primary reasons for the high delinquency rate in Virginia are (1) the attempt to meet the objectives of Farmers Home Administration by providing housing to low income families and (2) inflation. To carry out the intent of the program requires making loans to high risk families and this in itself results in delinquencies; but the problem is magnified with the present day inflation.

The greatest need for housing in Virginia is among the low-income group and this program is primarily directed to that group. I believe the intent of Congress is to have 50% of the funds go to the interest credit eligible group and in this time of inflation, delinquencies will occur.

The concept is to work with the borrowers as long as there seems to be a possibility of meeting the loan objective, even if the loan is delinquent. When the situation becomes hopeless, steps to liquidate are taken. This course of action has not resulted in loss to the Government, and many families have been able to retain a home that would not have been possible under a policy of liquidation of short-term delinquents.

A major contributing factor to the delinquency problem is the need to devote additional manpower to loan servicing. With the high demand for loans, it is difficult to justify not processing loan applicants because of the lack of manpower.

As for analysis of delinquencies, we have no written information at present. The aforementioned statement we feel is a realistic evaluation of the situation. We are concerned, aware and working to minimize the situation. If it did not exist there would be absolutely no need for our program. The degree of it is not acceptable to us, and we have many plans in effect to reduce it.

SOUTH CAROLINA STATE OFFICE

Question 1. We would appreciate any further explanation or insight you can offer concerning the striking difference in statistics reported for Virginia and South Carolina concerning the number of houses in inventory, liquidation actions, long-delinquent loans, etc.

Answer. Since South Carolina was one of the first states that got into volume RH lending in 1971, 1972 and 1973 we naturally would be in a larger servicing volume. When a RH account becomes two months delinquent and the borrower does not respond, we request a meeting with the borrower and either get the account current, get a firm agreement to get the account current or begin liquidation. This firm collection policy will generally result in more houses coming into inventory. This firm collection policy also results in South Carolina having a smaller percentage of "long delinquent loans" (in excess of 6 months).

Question 2. Please advise whether or not there is any reason to believe Windsor Development and other firms with which Nathan H. Cohen is believed to have been associated have done business involving FmHA financing in South Carolina. If so, please give details.

Answer. We are not aware of any business in South Carolina of Windsor Development or Nathan H. Cohen.

Appendix 21.—Responses by FmHA State Offices to Questionnaire on Rural Housing Operations

[The following questionnaire was sent to each FmHA State office:]

Information for Intergovernmental Relations Subcommittee

1. Which five counties in your State do you feel have the most serious problems in their Section 502 rural housing program operations? Please identify each such county and provide a very brief description of the nature and extent of the problems involved. (If you do not feel there are significant problems in as many as five counties in your State, the requested information can be provided for less than five counties. If you feel that more than five counties have equally serious problems, information can be provided for more than five counties.)

2. Please provide your best estimate (or actual figures if readily available) as to the total number of Section 502 houses or loans in (a) your State and (b) each of the counties identified in response to question 1 which fall in each of the following categories:

(a) the number of seriously delinquent (i.e. six months or more behind schedule) loans. It would be helpful if you can also indicate percentage of such seriously delinquent loans on which liquidation action has been initiated.

(b) the number of loans which have been defaulted since January 1, 1973, and the estimated loss from such defaults, together with your estimate of the number of additional loan defaults and the amount of additional loss, if any, anticipated in the near future.

(c) the number of FmHA financed houses which are vacant, together with your estimate of the number of such vacant houses which have not yet been taken into inventory.

(d) the number of houses which are now in inventory or are expected to be taken into inventory, if any, which you believe may be difficult or impossible to sell under present conditions at prices reasonably related to the FmHA investment in them.

3. (a) Are you aware of any subdivisions in your State containing 50 FmHA financed homes or more? If so, please identify each such subdivision, giving its name and location, the name of the builder or builders, if known, and the approximate number of FmHA homes it contains.

(b) Are you aware of any builders or developers who have built a total of 100 or more FmHA financed homes in your State during the past three or four years, whether under a single trade or corporate name or several different ones? If so, please identify each such builder or developer (giving different corporate or trade names, where appropriate) and give your estimate of the total number of FmHA financed homes built, plus any added comments you may be able to supply concerning the counties or areas of the State in which the builder or developer has operated and whether or not he has specialized in manufactured or conventionally constructed homes.

(c) Are you aware of any single subdivisions in your State in which there have been ten or more defaulted FmHA loans since January 1, 1973? If so, please identify each such subdivision and give the estimated number of defaulted loans involved. In addition, please describe very briefly any factor or factors you believe may have contributed to the problems in each such subdivision.

(d) Are you aware of any builders or developers in your State which have been associated with a total of 25 or more defaulted FmHA loans since January 1, 1973? If so, please identify each such builder or developer and provide very brief details, including the estimated number of defaulted loans and any factor or factors you believe may have contributed significantly to the loan defaults involved.

(e) To your knowledge, have any special investigations been conducted or any legal action taken because of alleged irregularities involving operations of large-scale builders or developers of FmHA financed homes? If so, please provide very brief details.

4. Has your office made (or been provided) a written analysis of the overall extent, nature and/or causes, etc., of problems involving delinquent and/or defaulted Section 502 loans in your State or areas thereof? If so, please provide a copy of the most recent such analysis. If more than one such analysis has been made and you do not regard the most recent analysis as the most informative one, please provide also a copy of any earlier analysis which is more informative.

5. Have there been any significant problems in your State involving multifamily housing financed by FmHA, including rural rental, labor or cooperative housing? If so, please provide brief details concerning any such problems.

6. Are you aware of any instances in your State within the past three or four years in which new loans or commitments were made in a subdivision at a time when FmHA had acquired or appeared likely to acquire title to houses in the same subdivision which it would not be able to resell at realistic prices? If so, please provide brief details for each such subdivision.

7. Are you aware of any instances in your State in which there has been a noticeable concentration of borrowers in a single subdivision or area who made no payments, or almost no payments, after loan closing? If so, please provide very brief details concerning each such instance.

8. Are you aware of any instances *involving problem or defaulted* Section 502 loans in your State in which:

(a) the borrower never moved in;

(b) the borrower was an employee of the builder or developer, or the primary credit reference was provided by the builder or developer, or there was some other significant association between the borrower and builder or developer other than buyer and seller;

(c) undisclosed inducements, such as payment of insurance or of loan installments, were provided by the builder or developer to the borrower. If so, please provide brief details concerning each such instance.

9. Please give your *opinion* as to whether or not you believe there is a significant difference between manufactured and conventionally constructed houses in your State with respect to:

(a) problems involving defaulted loans.

(b) the average gain or loss per house on houses taken into inventory and resold, based on the original amount loaned and unpaid, repair costs, etc.

If you believe there is a significant difference, please provide very brief details.

[Information provided by State FmHA offices follows. Material furnished is numbered to correspond with the appropriate question in the preceding questionnaire:]

ALABAMA

1. We listed below the five counties in this state which we feel have the most serious problems in their Section 502 rural housing program operations:

County	Unduplicated RH caseload	Number of houses in inventory
Madison	598	73
Mobile	898	56
Monroe	339	37
Coffee-Dale	732	31
Dallas	350	21

All of the above counties are listed as having problems solely because of the number of inventory houses on hand.

In Madison County, the problem developed five or six years ago with one or two builders probably over building in one or two subdivisions that were probably too far in the rural areas. This happened before subdivisions were submitted to the State Office for approval. One of the largest subdivisions was highly integrated, and as the families began to desegregate, problems developed with vacant houses. An investigation was conducted by OIG and, as a result, the Supervisor retired. Since that time, the new Supervisors (we have had two in this county) have been working very diligently on this problem.

We had one subdivision in this county where sewage problems developed and all but two families moved out of the subdivision. The contractors went broke. However, through very good work of the County Supervisors, the developers secured a treatment plant and with the cooperation of the County and Health Department, installed this treatment plant. This subdivision is now open for sale of 18 inventory houses owned by FmHA, four by HUD, and six unfinished houses still owned by the builder. The county has agreed to take over and operate this plant. We feel that we have reached our maximum in this county and have started the other way.

In Mobile County we had a very aggressive Supervisor and a very small overall program. When interest credit loans became available, many builders became interested in the program, and the program mushroomed in this county. The Supervisor became more interested in making loans than servicing them. Consequently, he began to encounter problems. The Supervisor failed to assume responsibility of correcting these problems, and he was moved from this county in early 1974. We have two problem areas in this county. One is an all black subdivision in Montclair, and one is an all black subdivision in Mt. Vernon. Much vandalism has taken place at Montclair. We have now advertised Montclair for office to sell by realtors and are in the process of repairing these homes and hope they will be sold through this process. A $200,000,000 industry is planned for the Mt. Vernon area, and we anticipate this relieving the subdivision at Mt. Vernon.

The personnel in this county are working very diligently to turn this county in a different direction. We have very few borrowers left in this county that are delinquent from 1973 payments, and we are now in the process of contacting all borrowers that are more than three monthly payments behind. Out of a total of 898, we will probably get 25 or 30 more houses in inventory, all of which will be older loans that were improperly served by the former Supervisor. We anticipate no problems with loans made in this county during the last 18 months.

Monroe County is a very good agricultural county and has a rather high ratio of blacks. We have two problem areas in this county. One in a very nice black subdivision of 30 odd houses in Beatrice. These are brick homes, paved streets, public water, and central sewage system provided by the contractor and now operated by the water system. We have approximately six houses in inventory in this subdivision, and the builder has approximately four houses unsold.

In the county seat of Monroeville, we have a subdivision of approximately 60 houses developed by two contractors, which is a very nice subdivision with paved streets, nice size lots, brick veneer, and has central water. When the developers were working on this subdivision, loans were made to some applicants that should have not been made to. These applicants gave this subdivision a bad name. Most of these have been moved or foreclosed, and the subdivision is in an excellent condition at the present time. We have 20 odd houses in inventory in this subdivision and the builder has approximately five that have never been sold.

There are very few other problems in this county. There is a tremendous need for housing for blacks in this county. Yet, they hesitate to come into crowded subdivisions such as these two. We feel that in time this situation will be worked out without many problems.

In Coffee-Dale County we have at Ozark, Alabama, Ft. Rucker, which is an Army-Helicopter base. You, of course, can imagine the growth that took place at Ft. Rucker during the recent Vietnam war. This is an excellent agricultural area and Dothan, Alabama, is located approximately 20 miles south. Most of the houses involved in Dale County, and the majority are in Dale, are in a nice subdivision with paved streets and central water. Most of the houses are approximately 1100 square feet with one and a half baths and garage. Most were taken into inventory at $12,500 to $13,500. The majority are owned by whites. Most of the houses were turned back at the end of the Vietnam war, when Ft. Rucker was cut quite severely in its program, and these people had to move to seek employment. The economy in this area is now recovering and we anticipate no problems in disposing of these houses over the next two years. They are, at the present time, selling from five to eight houses a month.

In Dallas County we have two problem areas, both mostly black subdivisions. Here again, we had developers that developed subdivisions in rural areas and brought families together, and they were not used to living in such close quarters. There is nothing wrong with the homes in these cases, and it will take a matter of time to slowly move families into these areas to occupy these empty houses.

You will note that there are only 21 houses out of a 350 case load in this county, all of which were formerly occupied by blacks.

For your information, and to show that these are the major trouble spots in this state, we list the other counties that have over 10 houses:

County	*Number of Houses in Inventory*
Lowndes	19
Limestone	18
Barbour	16
Elmore	12
Marengo	11
Covington	11
Crenshaw	10

You see that the five listed above are where our main problems are. Looking at Limestone County with 18 houses in inventory, they have 961 active housing borrowers. In Elmore County with 12 houses in inventory, they have 869 active housing borrowers. So you see with the mobility of present families with almost a thousand families involved, you can expect to have a rather large turn over of houses in any one year, with families moving to other jobs, divorcing, and other reasons.

2. As stated above, we have a total of 26,523 active RH loans in Alabama as of June 30, 1974. According to the printout from our Finance Office dated July 31, 1974, we had 623 borrowers that were delinquent over three payments. This is three percent of the 21,109 borrowers that were on direct payment. We have no estimates as to the number of office pay borrowers that would be in this category.

a. According to the July 31, 1974, printout, we are listing below the five counties and giving the number of borrowers that were three months behind on their monthly payments:

County	Number of borrowers 3 months behind	Number of cases in liquidation
Madison	12	1
Mobile	74	18
Monroe	10	3
Coffee-Dale	8	0
Dallas	1	2

As stated above, in all counties, except Mobile, we feel we have peaked with problem cases and are going down hill.

b. This information is not readily available. However, with the exception of Madison County, that a vast majority of inventory houses were taken in since January 1973. We have devoted the last eight to ten months in this state with a very strict policy on servicing, and it has been highly successful. We have taken losses in individual loans, but state wide of all liquidation cases we have shown a gain or profit during the last 12 months according to Finance reports. We do not anticipate a vast number of loan defaults, other than in Mobile County where we will probably have 25 to 35 additional cases, mainly because of failure of families to make their payments.

c. The number of FmHA financed houses that are vacant in the five counties are strictly an estimate, but I feel that are fairly accurate:

County	Number of vacant inventory houses	Number of other vacant houses
Madison	25	0
Mobile	50	2
Monroe	34	0
Coffee-Dale	20	0
Dallas	21	0

In Madison County all inventory houses were opened up to tornado victims in April and May of this year. A majority of the houses in inventory in this county are leased on a monthly basis to tornado victims, many of which will eventually buy the house, while others will only occupy them until they can rebuild their homes.

d. We listed below the number of houses now in inventory or expected to be taken into inventory where we may encounter problems in selling:

County	*Number of Houses in Inventory*
Madison	10
Mobile	10
Monroe	0
Coffee-Dale	0
Dallas	7

In Madison County we have one large integrated subdivision where vandalism has been very severe. We have a few houses in this subdivision that if we could dispose of without repairing, we feel it would be of the best of interest to the Government. All of these cases have been reported to local sheriffs' offices and FBI. In Mobile County, we come back to our black subdivision where vandalism has taken place. In this case, the FBI has been active, but has not stopped vandalism in this one subdivison.

3a. Listed below are subdivisions containing 50 or more FmHA financed homes:

County	S/D	Approximate number of houses	Builder
Madison	Flint River	75	Charles Fields.
	Hazel Green	110	Ragland & Young.
Lowndes	Mosses	58	Great American Homes.
Monroe	Pineview	60	Great American Homes & W. C. Taylor.
Elmore	Pinebrook	110	Strength & Pouncey.
	Kingswood	70	Clarke Associates.
	Ferndale	50	Do.
Mobile	Mark IV	60	Ray H. Horn.
Wilcox	Westgate	56	Great American Homes.

b. Listed below are builders to our knowledge that have built a total of 100 or more FmHA financed homes in Alabama, and the counties in which these houses are mainly constructed.

Builder	Approximate number of homes	Location
Charles Fields	300	Limestone, Madison, Marshall Jackson.
Great American Homes	4-500	Marengo, Wilcox, Dallas, Lowndes, Butler, Monroe.
Clarke Associates	200	Elmore.
Strength & Pouncey	200	Elmore, Macon.
Miki Walding	300	Coffee-Dale, Houston, Geneva, Henry, Barbour.
First Homes	150	Mobile (now out of business).
Ragland & Young	110	Madison.

None of the above builders used modular housing. Many used a panelized house where open panels were transported to the site, as most construction is now done, and erected.

c. Listed below are subdivisions as to our knowledge in Alabama in which there have been ten or more defaulted FmHA loans since January 1, 1973:

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County	S/D	Approximate number of defaults
Limestone	Ardmore	20
Madison	Flint River	30
	Blouchersford	20
	Brownsboro	10
	Harvest	10
	Hazel Green	30
Elmore	Pinebrook	20
	Kingswood	10
	Ferndale	10
	Crenshaw	10
Lowndes	Whitehall	10
	Mosses	12
	Norman	10
Wilcox	Westgate	10
	Meadowbrook	10
Monroe	Pineview	20
Mobile	Carver Heights	10
	Montclair	20

Most of the subdivisions have been listed above and have been caused mainly because of accepting packages from builders without complete investigation, poor credit risks, and trying to make loans to families with too low of income.

d. We are listing below builders, from our knowledge in Alabama, that have constructed houses where 25 or more have defaulted FmHA since January 1, 1973. These builders are Charles Fields, Great American Homes, Clarke Associates, Strength and Pouncey, Miki Walding, First Homes, and Ragland and Young. As stated above, most of the defaulted loans are due to improper investigation, trying to make loans to families with too low of income, and making loans to low income families that have never had to budget their money.

For example, we moved hundreds of families from two and three room shacks with drop cords for lights, no toilet facilities, no running water, and the only expense was probably $25 to $30 rent. These families were moved into homes with electric lights, electric stoves, central heating, bathrooms, well pumps, and all conveniences of average families. We did not have enough personnel to properly supervise and acclimatize these families to this change in their environment. This was probably the greatest transition that most of these families will make in their life time. When it developed that they owed light bills, heat bills, water bills, taxes, insurance, and house payments, they could not, and we did not have the personnel to assist them, budget their income to meet these expenses. Consequently, they became behind with their utilities and house payments, and either gave up or were foreclosed; thus, losing their homes.

It appears from this questionnaire that you are attempting to blame these defaulted cases on contractors, poor selection of families, poor subdivisions, poor construction, and so forth. This is not correct. We have instances, and they are rare, where this has happened. The majority of our defaults are mainly the fault of the FmHA not providing enough personnel to assist these low income people with counseling and money management and how to become accustomed to living in a home like normal people. A majority of our defaults would probably have never been in this situation had we been able to go out and supervise families, counsel and guide them as we have done in the past without supervised programs. We have become so wrapped up in making loans that we have neglected the fact that the majority of the low income people in the South need help other than loans. Unless this help is provided, we will either drop all our low income families, which would be practically all of the blacks, and devote our loan making to the upper class, who will pay on their own.

e. As stated above, we had a special investigation in Madison County involving one builder. There was an extensive audit report done in Wilcox County on Great American Homes. This report was completely cleared and the builder made all requested adjustments.

4. We have not made, or provided as such, written analysis, of the overall extent, nature, and causes of delinquent and default housing in this state, even

though we have in the State Office first hand knowledge of every subdivision where we have encountered problems and almost the names of every borrower. Our District Directors have been closely connected with these problems, and loan officers have assisted county personnel in serving these cases. We provide breakdown of inventory houses to District Supervisors periodically and set goals from them to distribute among their counties in selling inventory houses. For example, at our last staff meeting in August, we provided Supervisors with a county by county list of inventory houses, which totaled 433 in the state at that time.

We set a goal to process 232 credit sales during the months of August, September, and October. Reports were issued during this time to District Supervisors showing progress made in reaching these goals. All personnel are aware of problems and where they exist.

5. We have no rural rental housing in Alabama that have given us any significant problems.

6. The nearest incident in which we would have cases similar to those referred to under this question would be in some area where we might have inventory houses and the builder had dwelling constructed and not sold. In some instances we have permitted the builder to provide us an applicant for an inventory house, and we made a loan for an unsold dwelling. We have found builders to be the most cooperative in trying to assist us in selling inventory houses. We have often told builders that we would not build in that vicinity until inventory houses were disposed of, and normally we expect each builder that is actively building to provide us with applicants for inventory houses that are formerly constructed by him.

7. We have many instances in this state where we have had concentration of borrowers, especially low income blacks, in a single subdivision or concentrated area, where payments were not made in many instances due to a family down the street having been foreclosed and still remaining in the house for six to eight months before the United States Attorney evicted him. A good example is in the Westgate Subdivision in Wilcox County with 56 black families. Last Thanksgiving, the marshal evicted a family that had been foreclosed because of failure to make payments and had continued to live in the house for approximately eight months. He had laughed at other borrowers saying they were foolish to make payments when he did not have to. The marshal advised that when he moved this borrower's furniture into the street, that there was a ring of families around the area observing. The county office clerk advised that by the end of the following week that they had been surprised at the number of families that had come in and paid their entire payment for 1973. Many of these families the Supervisor felt that he would have to foreclose because of their failure to pay up. This has happened time and time again in subdivisions.

For example, in Lowndes County, we have a subdivision with 58 dwellings. At the present time, we have two families that have been foreclosed. Both were foreclosed in April 1974. One is mentally deranged and constructed a barbed wire barricade. He has not made a payment since purchasing this house and has lived there five months after the foreclosure sale. You can see what effect this has on low income people that have problems making their payments anyway and then see a family next door living in the dwelling that has been foreclosed and making no payments and not especially concerned. It would be very helpful if some method could be worked out with the United States Attorney's office to step up eviction, where necessary, following foreclosure.

8. a. I can recall only a rare instance where borrower purchased a house and never moved in. One case recently occurred when a family had moved from their old dwelling, were on their way to the new dwelling when they disagreed and subsequently, obtained a divorce and never got to the new house with the furniture. This is not a problem in this state.

b. This would not be a problem.

c. We have no knowledge of this having occurred in this state.

9. Three years ago there were 35 modular housing manufacturing plants in Alabama. These dwellings, though often very well constructed, were not competitive with local stick built or panelized houses. Therefore, a majority of them were shipped to other states. I doubt of all modular loans made in Alabama, if we made over 200 loans to buy modular constructed homes. We now have two modular plants operating in this state.

a. We have had problems you might say with one manufacturer of modular homes where several homes were purchased and the plant closed down or bankrupt and they did not follow up on their warranty. This involved only a few houses and was not a bad problem.

b. We have probably discounted a very few number of modular houses to show a loss once taken into inventory and resold. Under our present economy, most dwellings after being repaired, appreciate in value.

I will again like to express my opinion regarding the situation involving this questionnaire. I realize that we have had builders that have not given us unsatisfactory deals in both houses and subdivisions. However, a vast majority of builders in this state want to do the right thing and have been most cooperative in trying to construct a good house on the adequate site. I still feel that the greatest problem has been caused by lack of personnel to properly service low income families.

I hope the above provided the needed information. If further information is needed, feel free to call us.

ALASKA

Rural housing programs in Alaska are administered by the Oregon State office.

ARIZONA

1. Five counties: Cochise, Maricopa, Navajo, Pinal, and Yuma.
2. (a) Total number of Section 502 loans in Arizona: 7,362.
   (b) Total number of Section 502 loans in Counties:
   (1) 6 months or more:

Cochise	30 = 25.50 percent.
Maricopa	293 = 38.62 percent.
Navajo	56 = 39.19 percent.
Pinal	128 = 42.48 percent.
Yuma	58 = 38.81 percent.

   (2) See attached copy of completed FmHA Bulletin 5049(465).
   (3) 101 vacant but not in inventory, and 23 acquired vacant homes.
   (4) 23 in inventory. Will be able to sell them all.
3. (a) Yes. Subdivisions of over 50 listed below:

Canyon Shadows, Kingman, Shuffler & Kerley (and Borne)	65
Casa Mia, Mesa, Schemel Constr., Inc	200
Chula Vista, Nogales, Firestone Builders	100
Donovan Estates, Yuma, Jacobson Companies	100
Eloy North, Eloy, Blankenship Builders	50
Linda Vista Nos. 1 and 2, Mesa, Neidhart Enterprises	200
Littletown, Tucson, Key Builders	110
Lucy T Nos. 1, 2, 3, and 4, Avondale, Neidhart Enterprises	75
Monte Carlo Estates, phases 1, 2, 3, and 4, Stoddard Construction Co	300
Monte Carlo Hills, parcels 1 and 2, Nogales, Stoddard Construction Co	150
Rio Vista West, unit 2, Tolleson, Service Contractors and Neidhart Enterprises	100
Superstition Village, Apache Junction, Ed Mason	60
Valencia, Buckeye, Service Contractors	65
Villa del Verde, Tolleson, Service Contractors	115

(b) Yes. Builders constructing over 100 homes:

Service Contractors in Graham and Maricopa Counties	400
Neidhart Construction Co. in Maricopa and Pinal Counties	500
Jack Stoddard in Maricopa and Pinal Counties	300
Firestone Builders in Santa Cruz County	160
Key Builders in Pima County	150
Clifford Boren in Yuma County	175

All homes are conventional type construction.

(c) Yes. Lucy T in Maricopa Co. Defaulted loans, 33. Littletown in Pima Co. Defaulted loans, 62.

Factor for problems. Itinerant population. Poor credit, prior to the use of credit reports.

(d) Yes. Neidhart Construction Co. in Maricopa County, and Key Builders in Pima County.

Reason for loan defaults: Neidhart—packagers and poor applicants; Key Builders—poorly constructed homes.

(e) Yes, with Key Builders. They have been banned from building. Most problems resolved by making subsequent RH loans.

4. No. No written analysis of the overall causes has been made. Some individual problems and subdivisions have been analyzed and solutions instigated.

5. No. No significant problems with multi-family housing.

6. No. Regarding loans made when FmHA appeared likely to acquire titles to houses in same subdivisions, etc.

7. Yes, in Lucy T in Maricopa County and Littletown in Pima County. Poor family selection by packagers.

8. (a) Yes. Very few.

(b) No.

(c) No.

9. (a) Yes. We have very few manufactured homes compared to conventionally constructed homes; however, the manufactured homes have resulted in a large number of complaints.

(b) See attached copy of completed FmHA Bulletin 5049(465).

ANDREW B. MAYBERRY,
State Director.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE [1]

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 mo.	Number in liquidation by— Transfer	Vol. conveyance	Foreclosure
Maricopa (3 offices)	1,763	681	293	42	3	21
Pinal	925	393	128	22	0	20
Yuma (2 offices)	657	255	58	25	3	21
Cochise (3 offices)	541	138	30	7	0	17
Navajo	495	194	56	6	2	10

County	Sold: Number fiscal year 1974	Sold: Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FMHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Maricopa	0	0	2	(2)	(3)	(3)	(3)	3
Pinal	0	0	3	(2)	(3)	(3)	(3)	4
Yuma	1	—783.10	6	(2)	(3)	(3)	(3)	9
Cochise	1	+498.77	3	0	(3)	(3)	(3)	2
Navajo	4	—29,901.71	3	(2)	(3)	(3)	(3)	5

1 Identifying 5 counties in your State having the most serious defaulted loans, inventory and sale problems regarding the 502 RH program only (Note: Give best estimates available indicating totals as of current time unless otherwise noted.)

2 Loss.

3 None.

ARKANSAS

1. The five counties having the most serious problems in their 502 rural housing program operations are Crittenden, Lafayette, Miller, Mississippi, and Phillips. A brief description of the nature and extent of the problems are as follows:

Crittenden.—This county has a high delinquency rate and there is an increasing number of loan defaults. The loan failures are causing an increase in the number of acquired properties.

Lafayette.—The social and economic conditions in the area where several loans were made have caused a build up in the acquired property inventory. The same conditions are making it difficult to move the property out of inventory.

Miller.—This county has a higher than average delinquency rate coupled with similar social and economic conditions in the problem areas as are found in

Lafayette County. Difficulties in marketing the acquired properties has caused the increased inventory of Government-owned dwellings.

Mississippi.—The county has one of the highest delinquency rates and there appears to be an unusually large number of transient families. The difficulty in moving acquired properties has caused an increase in the inventory.

Phillips.—This county has the highest delinquency rate in the State. There is an unusually large number of low income families that are being adversely affected by the high rate of inflation. If these conditions persist, it is apparent that there will be a large number of liquidations in the foreseeable future.

2. (a) The number of loans delinquent six months or more was included in the attachments to my memorandum dated July 25, 1974, forwarded in accordance with FmHA Bulletin 5049(465). A copy of the report is attached. Since liquidation action might involve transfers, voluntary conveyances, outright sales, or foreclosures, the percentage of seriously delinquent loans on which such action has been initiated is not known without a detailed survey of all county offices.

(b) This information cannot be determined without a detailed survey of the counties.

(c) We do not have this information available in the State Office. However, we do have 111 vacant houses in inventory.

(d) We are unable to estimate the number of houses expected to be taken into inventory for which it will be difficult or impossible to sell under present conditions at prices reasonably related to the FmHA investment in them. This information for units now in inventory is provided herewith:

County	Number in inventory	Number expected to be acquired	Estimated number difficult to sell at investment	
			In inventory	To be acquired
Mississippi	57	42	19	(1)
Miller	30	5	25	(1)
Crittenden	13	10	12	(1)
Lafayette	10	4	10	(1)
Phillips	6	13	5	(1)
Total	182	196	101	

[1] Unknown.

3. (a) The available information is provided in the chart below. There may be others, but we are not aware of their existence:

Name of subdivision	Location	Number loans	Name builder
Zachary	Marvell, Phillips County	70	Marvell Lumber Co.
Royal Oaks	Van Buren, Crawford County	54	Greenbriar Homes.
Oak Ridge Estates	Barling, Sebastian County	64	C. & B. Building Supplies, Inc.
Riverdale	Luxora, Mississippi County	53	Magnolia Courts, Inc.
Senter	Keiser, Mississippi County	95	Senter Enterprises.

(b) The available information is provided in the chart below. There may be others, but we are not aware of their existence:

Name	Location	Estimated number		County
		Conventional	Prefab	
Marvell Lumber Co	Marvell	125		Phillips.
New Builders, Inc	West Helena		130	Phillips, Lawrence, Arkansas.
Greenbrier Homes also doing business as C. & B. Building Supplies, Inc., Ranco Construction Co.	Barling	200		Sebastian, Scott, Crawford, Franklin, Logan.
Senter Enterprises	Keiser	105		Mississippi.

(c) We have information to indicate that the Riverdale Subdivision in Mississippi County and Riverview Subdivision in Miller County, have had ten or more defaulted loans since January 1, 1973. We do not have records to show the exact number. This information can be obtained by the county office. The borrowers were generally very low income families and had never experienced the privilege of home ownership. After the loans were consummated, they chose not to accept the responsibilities of a home owner.

(d) We are not aware of any builder or developer associated with 25 or more defaulted FmHA loans since January 1, 1973.

(e) A special investigation was conducted in the alleged irregularities of Mr. Jimmy Harris, d/b/a City Building Supply, Inc. The results of this investigation are contained in Investigation Report File No. TE–499–23, dated March 5, 1974.

Also, a special investigation was conducted in the case of Mr. Richard K. Montgomery, doing business as Richmont Homes, Inc. The results of this investigation are contained in Investigation Report File No. TE 430–29 dated June 11, 1974.

Information from the report files may be obtained from the director of Program Evaluation Staff.

4. This office has not made a written analysis of the problems in any given area.

5. We have had no significant problems with multi-family housing loans.

6. We are not aware of any instance, within the past three or four years, involving the above circumstances.

7. It appears this condition may have existed to some extent in the Riverdale Subdivision in Mississippi County, the Garland City area in Miller County, and the Price Addition in Lafayette County. However, specific information cannot be provided without obtaining the details from the county offices.

8. We are not aware of any such instance, however, they may exist.

9. We do not believe there is any significant difference between manufactured and conventionally constructed houses with respect to problems involving defaulted loans or the average gain or loss per unit on houses taken into inventory and resold, based on the original amount loaned and unpaid, repair cost, etc.

ROBERT HANKINS,
State Director.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE[1]

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 mo	Number in liquidation by— Transfer	Vol. conveyance	Foreclosure
Mississippi	636	159	90	10	24	18
Miller	144	22	17	0	1	4
Crittenden	441	134	67	2	3	7
Lafayette	248	95	29	0	0	4
Phillips	659	289	179	3	4	9

County	Sold: Number fiscal year 1974	Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FMHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Mississippi	15	14 loss ($24,650)	57	Loss	1			26
Miller	2	1 loss ($300)	30	do	1			25
Crittenden	1	1 loss ($600)	13	do				6
Lafayette	5	4 loss ($1,850)	10	do				10
Phillips	0		6	do				1

[1] Identifying 5 counties in your State having the most serious defaulted loans, inventory and sale problems regarding the 502 RH program only (note: give best estimates available indicating totals as of current time unless otherwise noted)

CALIFORNIA

1. See attachment.
2. See attachment.

Subdivision name	Location	Builder	Number of FMHA homes
Terra Linda No. 1 and 2	Elk Grove, Calif	Delta Development Corp	154
Lathrop Village	Lathrop	Phillips Construction Co	144
Villa Hermosa	Hollister	Cortelyou and Cole	124
Colonia Azteca	Soledad	Rural Development Corp	72
North Empire	Empire	Tempo Homes, Inc	100
Heber Park North	Heber	Fred Higginbothom	154
Golf Side Terrace	Galt	Linear Homes Pacific Modules Bill Roark Self-Help (RCHC)	68
Elk Grove Meadows	Elk Grove	Swift Construction Co Pacific Modules Self-Help (RCHC)	62
Starr View Estates	Windsor	Self-Help (RCHC) Spigner Waymiere Tom Law Burnett & Doty	75
Park Glen	Windsor	do	55
Mesa Village	Green Valley	Shoreline Construction Co	109
Vernoe Park	Paso Robles	do	65
Arlington Estates	Hughson	New Hope Homes	70
Glenmore Estates	Denair	Roy Campbell	75
Rancho Verdugo	Rosedale	Shipman & O'Grady	125
Coleman Tract	Shafter	Coleman Co	72
Hawaiian Beaches	Puna, Hawaii	Hicks Construction Co H. & S. Construction Oshiro Oishi Yoshioka	400
Kaulaimano	Pepeekeo, Hawaii	Oshiro Yamoda	150
Pahala	Pahala, Hawaii	Hicks Construction Co Mauldin	55
Humula	Lihue, Hawaii	American Factors	60
Walnut Park	Live Oak, Calif	Countryside Builders	63
Tract 2332	Firabaugh	Freedom Homes	61
Tract 2411	do	do	64
Tract 2403	Mendota	do	55
Tract 276	Corcoran	do	61
Lynwood No. 1	Elverta	do	91
Galt Meadows	Galt	do	71

3b. BUILDERS OF OVER 100 FmHA HOMES—THESE HOMES WERE ALL CONVENTIONALLY CONSTRUCTED

Builder(s)	Number of FmHA homes	Location
Kaiser Aetna Country Side Builders Westward Builders	300	Sonoma, Sutter, Yolo, Glenn, Contra Costa, San Joaquin and Fresno Counties.
Delta Development Corp	154	Sacramento County.
Freedom Homes	500	Sacramento, San Joaquin, Merced, Stanislaus, Fresno, and Kings Counties.
Phillips Construction Co	144	San Joaquin County.
Cortelyou & Cole	124	San Benito County.
Tempo Homes, Inc Sutco Construction Co	300	San Joaquin, Stanislaus, and Merced Counties.
Fred Higginbothom	180	Imperial County.
Pacific Modules	105	Sacramento, Nevada, Monterey, and Colusa Counties.
Custom Homes Al Arnold Construction Co	200	Riverside and San Bernardino Counties.
American Desert Homes	100	San Bernardino County.
Shoreline Construction Co	291	Santa Cruz, Contra Costa, San Luis Obispo, and San Benito Counties.
Roy Campbell	150	Stanislaus and Merced Counties.
Charles Schultz	105	Stanislaus County.

3b. BUILDERS OF OVER 100 FmHA HOMES—THESE HOMES WERE ALL CONVENTIONALLY CONSTRUCTED—Continued

Builder(s)	Number of FmHA homes	Location
Shipman & O'Grady	125	Kern County.
Harmony Builders	180	Do.
Regent Construction	130	Do.
Kern County Builders	105	Do.
John Foremaster	110	San Luis Obispo County.
Budget Homes	110	Tulare and Kings Counties.
H & S Construction	300	Hawaii County, Hawaii.
Hicks Construction Co	600	All Islands, Hawaii.
Arisumi Bros	200	Maui County, Hawaii.
Oshiro	110	Hawaii County, Hawaii.

3c. No.
3d. No.
3e. No.
4. No.
5. No.
6. No.
7. No.
8. No.
9. We have had very little experience with manufactured homes. In Nevada the percentage of manufactured homes is the greatest but is still less than 20 percent of the new home construction. To date we have only had very isolated problems and are unable to conclude that one kind is more of a problem than the other. In California and Hawaii manufactured homes, so far, have not been able to compete costwise with onsite construction.

In summary we have less problems with our housing in new subdivisions. Our biggest servicing problem has been with loans made for the purchase of existing homes and loans on scattered rural sites. What few losses we have had have been mostly with the purchase of older existing homes.

Attachment.

DOUGLAS W. YOUNG,
State Director.

ATTACHMENT

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE [1]

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Modesto	760	201	40	5	2	42
Bakersfield	692	189	34	2	10	2
Arroyo Grande	478	125	21	6	4	5
Visalia	950	239	41	3	0	13
Fresno	1,025	262	43	10	0	8

County	Sold: Number fiscal year 1974	Sold: Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Do you anticipate Government gain or loss	How many subdivision have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Modesto	0	0	16	Loss	0			3
Bakersfield	11	0	8	do	0			3
Arroyo Grande	3	−3,000	7	Gain	0			1
Visalia	1	+700	4	do	0			1
Fresno	1	+2,800	6	do	0			0

[1] Identifying 5 counties in your State having the most serious defaulted loans, inventory and sale problems regarding the 502 RH program only (Note: Give best estimates available (indicating totals as of current time unless otherwise noted).

COLORADO

1. There is only one county in Colorado with a serious delinquency and inventory problem in housing. This is Huerfano county where 12 houses have been abandoned in the town of Walsenburg. All were abandoned within a few months of loan closing. They are located in the same subdivision and were built by one developer. The area is economically depressed; many individuals are on welfare and cannot afford a new house. Those who find work elsewhere just leave.

2. (a) Colorado—the finance office print out indicates 116 (3.7%) delinquent over three months. Our sampling indicates similar figures for six months (about 4%). Liquidation action has been started on more than 50% of the seriously delinquent cases.

Huerfano County.—There are 10 loans delinquent six months or more for a 15% rate. Liquidation has been initiated on all 10 loans.

(b) Colorado—the estimated number of loans defaulted since January 1973 is 125. The estimated defaults in the next 12 months is 145. The estimated loss on houses now in inventory and process of liquidation is $50,000.

Huerfano County.—14 loans have defaulted since January 1973. The loss is unknown, the houses have not been disposed of. The estimated defaults in the future are two or three. Losses in this county on 14 houses is probably $30,000.

(c) Colorado—We have no estimate of the number of vacant FmHA financed houses, but the number is small. Most areas are in desperate need of housing; therefore, the units are occupied even though the loan may be in default.

Huerfano County.—The number of vacant houses in inventory or process of liquidation—10.

(d) Colorado—We anticipate very little difficulty in disposing of the houses we take in, except in Huerfano County.

Huerfano County.—There are 14 in inventory; all will be difficult to sell at or near the FmHA investment in them.

3. (a) Town	Subdivision	Builder	FmHA
LaSalle	LaSalle subdivision	Weld County Lumber	50
Eaton	Northwest subdivision	Wheeler Realty	90
Platteville	Bella Vista subdivision	Pancho Sanchez Development Corp	60

(b) One builder-developer has built more than 100 houses for FmHA financing in the past 3 years. They are Weld County Lumber Company, who also do business as Lehan-Witt and who build for Wheeler Realty, who acts as developer. All units are "stick built." They have been active in the Greeley area (Weld County), but now are branching out to other parts of the state. Weld County Lumber Co. is a reliable builder. Wheeler Realty acting as a developer uses other contractors and has had some problems with them.

(c) No, except the 10 mentioned in Questions 1 and 2 (a) in Huerfano County in Walsenburg. They are all in one section of town.

(d) No.

(e) No.

4. No such analysis has been made.

5. We have one problem multi-family housing loan—The Prowers County Farm Labor Housing Association. The project has never made a payment and is now in the process of liquidation. The problems are many. It was built for migrant labor, but there isn't enough occupancy from that type of tenant to pay the bills. Management has been poor, too many units, poor location and changing agriculture all have contributed to the difficulties we have experienced with this loan.

6. No.

7. There have been two or three small areas where 3 to 7 families have complained about houses and threatened to stop making payments. Only one or two families in each case actually did so. In those cases we have been fairly successful in getting them to convey the units to the Government, or transfer to other applicants with no significant losses.

8. (a), (b), and (c), no.

9. (a) and (b), no.

LEO FRENCH,
State Director.

CONNECTICUT

Rural housing programs in Connecticut are administered by the Vermont State office.

DELAWARE

1. Sussex County, Delaware; Cumberland County, New Jersey; Wicomico County, Maryland; Kent County, Maryland; Ocean County, New Jersey.

The first two counties are the most serious. The largest problems are chiefly abandonment and delinquency cases.

2. Only the first two counties listed in question #1 will generally fall into the categories listed in this question. Ninety-five percent of these houses are coming back to FmHA and it is difficult to sell any of them out of the FmHA program at this time.

The remainder of the information requested will be reflected in the enclosed attachment.

3. Negative, except for one subdivision. This is Broad Acres, Seaford, Delaware, and this subdivision is covered in the attached report.

4. The most informative reports we have are attached.

5. Negative.

6. Negative.

7. One, this is covered in the Broad Acres report.

8. One, the borrower never moved in. No details are available as this case only came to light in the past two weeks.

9. No difference.

C. WILLIAM HAINES, JR.,
State Director.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING 5 COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Georgetown, Sussex County, Del	800	150	50	3	10	17
Bridgeton, Cumberland County, N.J	800	150	35	5	8	14
Salisbury, Wicomico County, Md	467	104	12	0	0	9
Chestertown, Kent County, Md	430	125	57	10	2	3
Toms River, Ocean County, N.J	835	185	66	10		10

County	Sold: Number fiscal year 1974	Sold: Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Georgetown, Sussex County, Del.	0	Break even.	17	Loss	0	0	0	11
Bridgeton, Cumberland County, N.J.	4	do	11	do	0	0	0	3
Salisbury, Wicomico County, Md.	0	do	3	Break even.	0	0	0	1
Chestertown, Kent County, Md.	4	do	4	do	0	0	0	2
Toms River, Ocean County, N.J.	1	do	1	do	0	0	0	1

FLORIDA

1. County	Nature of problem	Extent of problem
Polk	Increasing delinquency, abandonment, lack of servicing.	140 cases 6 months or more behind schedule.
Jackson	Increasing delinquency, abandonment	16 cases 6 months or more delinquent.
Gadsden	Increasing delinquency, abandonment, and inventory property.	25 cases more than 6 months delinquent.
Santa Rosa	Increasing default, vacant properties, and increasing inventory properties.	20 cases more than 6 months delinquent.
Okeechobee	Increasing delinquency and inventory properties	7 loans more than 6 months delinquent.

2.a. County	RH loans	Number seriously delinquent	Percent
State	12, 110	2, 807	26
Polk	1, 081	65	6
Jackson	503	10	2
Gadsden	435	25	5
Santa Rosa	678	3	.04
Okeechobee	371	7	2

b. County	Default since January 1, 1973	Estimated loss	Estimated additional defaults	Amount additional loss
State	665	$332, 500	500	$250, 000
Polk	70	35, 000	200	100, 000
Jackson	7	0	0	0
Gadsden	11	22, 000	6	12, 000
Santa Rosa	20	3, 000	3	10, 000
Okeechobee	17	[1] 14, 500	1	[1] 6, 000

[1] Gain.

c. County	Inventory number vacant	Other vacant
State	25	15
Polk	0	6
Jackson	1	3
Gadsden	3	1
Santa Rosa	3	7
Okeechobee	2	2

d. County	Number difficult to sell
State	40
Polk	0
Jackson	0
Gadsden	15
Santa Rosa	0
Okeechobee	0

3.a. Subdivision and location	Builder	Number of homes
Pine Hill Acres, Milton, Santa Rosa County	1st Homes, Inc	62
Gordon Heights, Bartow, Polk County	Norris Construction, Majestic Homes, Inc., Earl Farrer.	202
Wheeler Heights, Bartow, Polk County	Key Sargent	95

b. Builder	Number	Area	Manufactured or conventional
(C. & W. Homes) Town and Country	300	North central Florida	Conventional.
Joe Norris	200	Polk County	Do.
Scotty Homes	350	South central Florida	Manufactured.
Mar-Nav	400	Southwest-central Florida	Conventional and manufactured.
Urban Land (Jon Oswald)	150	Lower east coast	Conventional.
Builders Home Builders (Garden Properties).	200	Northwest Florida	Do.

c. Subdivision	Number default	Factors contributing
Wheeler Heights	15	Lack of servicing.
Gordon Heights	30	Do.
Pine Hill Acres	15	Poor subdivision development.

d. None.

e. Pine Hill Acres—Investigated by OIG Audit Division. Results agreed that streets were not accepted by local government.

4. None.

5. Farm Labor Housing—Changes in agriculture and family trends over the past ten years have changed the type of housing required and needed for farm labor. This has caused problems with maintaining existing facilities and disposition of them.

6. Not aware of any.

7. None.

8. a, b, c. None to our knowledge.

9. a. No indication of any difference.

b. Unable to ascertain at this time. We expect problems in the future.

CLAUDE L. GREENE, JR.,
State Director.

GEORGIA

1. The following five counties that have the most serious problems in the Section 502 RH program are:

1. Stewart County.
2. Washington County.
3. Decatur County.
4. Lincoln County.
5. Gordon County.

2. a. The total RH caseload in Stewart County is 109 borrowers. Fifty-three of these 109 are delinquent. Thirty of these are six months or more delinquent. Six of these are in process of foreclosure. The County Supervisor is continuously working with security servicing in this unit which includes Stewart County. The problem in Stewart County is lack of industry, overbuilt with RH programs and poor packages when initial loans were approved.

b. Thirty-one RH loans in the entire Cuthbert unit were conveyed and foreclosed on during 1973 and 41 conveyed and foreclosed on in 1974. Total in inventory in this unit is 62. Twenty-six of these are in Stewart County. The estimated loss from such defaults will average $2,500.00. We anticipate 15 more RH defaults that will have to be conveyed or foreclosed in this county. The 26 houses now in inventory are averaging $950 for repairs, cleaning, painting and securing, which will be added to the above losses, making a total loss of $3,000 to $3,500 per house in this county.

c. All vacant houses are now in inventory.

d. We have 26 houses now in inventory in Stewart County. We anticipate difficulty in selling because of the depressed market and low income families in the area. We are of the opinion that all will sell in time.

Washington County

a. This county has an RH caseload of 395 RH borrowers. Out of these 108 borrowers are delinquent. Ten of these are six months or more delinquent. Eleven of the 108 cases are in process of foreclosure. The personnel in this office are working on security servicing and are of the opinion that it will be 55 before problem begins to decline.

b. Number of loans which have been defaulted since January 1, 1973, will be approximately 20 of the 40 now in inventory. The estimated loss from these defaults will be very small. The dwellings are being sold for approximately the amount that was owed on them at the time they became inventory property.

c. No houses are vacant in this county with exception of the 40 inventory houses and some of these are leased.

d. All 40 now in inventory will sell for the approximate investment.

Decatur County

a. Decatur County has a total RH caseload of 331 borrowers. Of these, 230 are delinquent as of July 30, 1974, and 53 are six months or more delinquent. Main cause of the delinquency is poor loans made during 1972 and 1973. Liquidation action is in process on 20 of these cases.

b. The number of loans which have been defaulted since January 1, 1973, is 20 RH borrowers. Estimated loss from the defaults will be very little. Inventory value will be amount of FmHA investment in most cases. Approximately five of the cases now in inventory will be sold for approximately $1,500 less than the FmHA investment. In the process of cleaning up the cases it will cause an increase to approximately 50 in inventory. The problems causing this number to be in default are poor loans, loans made to low income families and poor packages.

c. We have five houses vacant not yet in inventory and 20 vacant now in inventory.

d. We expect to sell all 20 now in inventory but will take several months.

Lincoln County

a. This county has a total RH caseload of 201. Ninety of these are delinquent. Thirty of these 90 are six months or more delinquent. Five of these are in process of foreclosure. All 90 delinquent accounts are being serviced. We expect to have 50 in inventory in this county before servicing is complete.

b. All loans now in inventory were brought in during 1974 calendar year. The estimated losses will be little. We are of the opinion that we will recover FmHA investment.

c. Number vacant now in inventory is 26. Approximately four more vacant now in process of foreclosure not yet in inventory.

d. We are of the opinion that we will recover FmHA investment on most of the inventory houses. Some were abused by family and repairs will be the only loss.

Gordon County

a. The number seriously delinquent over six months is 36 RH borrowers. This county has a total RH caseload of 426 borrowers out of these 158 are delinquent. Eleven of the 36 that are six months in default are in process of liquidation.

b. The number of loans which have been defaulted since January 1, 1973, is approximately 80 RH borrowers. The losses from these have averaged $1.000 per house. At one time in this county we had 60 properties in inventory. We now have 20. These properties were turned over to realtors and they have sold 40 and expect to sell the other 20 in the next two months. The problem in this county was caused by making loans to transit families.

c. None as far as we know.

d. We expect to get approximately 20 more in inventory, however, we are of the opinion that we can recover the FmHA investment.

3. a. We are not aware of any subdivisions which have more than 50 houses, however, an extensive study of the State could possibly reveal one or two of this size.

b. (1) Wilson Brothers and Associates—Constructed approximately 300—Imperial Homes—Panelized type construction—Serves Northeast Georgia.

(2) Bracewell Homes—Constructed approximately 150 homes—conventional built—Serves in Southwest Georgia.

(3) Adrian Homes—Constructed approximately 350 homes—Modular—Serves Middle Georgia Area.

(4) Butler Homes, Inc.—Constructed approximately 250 homes—Modular—Serves Middle Georgia and West Side of State.

(5) Kingsberry Homes, Inc.—Constructed approximately 100 homes—Modular and Panelized—Serves in Northwest Georgia.

(6) Southern Aire Corporation—Constructed approximately 250 homes—Use National Homes, which is a panelized home—Serves Northeast Georgia.

(7) Lokey Brothers—Constructed approximately 100 homes—Uses Kingsberry panelized homes—Serves Northeast Georgia area.

(8) Sam Singer—Constructed approximately 200 homes—Modular—Lakeshore and Butler Homes—Serves Southwest Georgia.

c. (1) Singer Heights, Lumpkin, Georgia—18 defaulted loans.
(2) Holiday Heights, Lumpkin, Georgia—10 defaulted loans.
(3) Singer Heights, Sylvester, Georgia—8 defaulted loans.
(4) Lakeview Subdivision, Attapulgus, Georgia—5 defaulted loans.
(5) H. L. Moore Subdivision, Richland, Georgia—7 defaulted loans.
(6) Singer Heights, Georgetown, Georgia—12 defaulted loans.
(7) Wells Subdivision, Lincoln County—10 defaulted loans.
(8) Town and County Subdivision, Donalsonville, Georgia—15 defaulted loans.
(9) Nestle Valley Subdivision, Calhoun, Georgia—10 defaulted loans.
(10) Rolling Acres Subdivision, Calhoun, Georgia—12 defaulted loans.
(11) Bearden Subdivision, Calhoun, Georgia—12 defaulted loans.
(12) Love Bridge Subdivision, Calhoun, Georgia—10 defaulted loans.
(13) Belwood Subdivision, Calhoun, Georgia—8 defaulted loans.
(14) Valley Brook Subdivision, Fairmount, Georgia—12 defaulted loans.
(15) Wickerdale Subdivision, Calhoun, Georgia—14 defaulted loans.
(16) Gilmore Subdivision, Sandersville, Georgia—10 defaulted loans.
(17) Mayview Subdivision, Sandersville, Georgia—12 defaulted loans.
(18) Hillandale Subdivision, Sandersville, Georgia—10 defaulted loans.
(19) Vickers Subdivision, Homerville, Georgia—12 defaulted loans.
(20) King Subdivision, Homerville, Georgia—15 defaulted loans.

Brief description of factors contributed to problems in each such subdivision:

(1) Packaging poor applicants.
(2) Poor subdivision (some wet, no paved streets).
(3) Low income applicants.
(4) Poor locations of subdivisions and planning.
(5) Late servicing of defaulted loans.

d. (1) Sam Singer, Lumpkin, Georgia—48 defaulted loans on homes that he constructed. Mr. Singer packaged poor applications and made them meet eligibility requirements.

(2) C. H. Bearden, Calhoun, Georgia—Approximately 25 defaulted loans. Transit families.

e. To your knowledge have any special investigations been conducted?

Yes. Sam Singer, Lumpkin, Georgia. As stated in d. (1) above.

4. Attached is the latest report on servicing, loan making, transfers, credit sales and inventory per county office.

a. We have issued bulletin on servicing of Section 502 loans.

b. Each month we issue a report showing the number of loans made, transfers made, number taken into inventory and number sold from inventory.

5. We have no significant problem in multi-family housing financed by FmHA.

6. None to our knowledge.

7. a. Singer Heights, Lumpkin, Georgia—Borrowers were not informed of responsibility toward the RH payments. Borrower looked to contractor to collect montly payments. Most of the borrowers lived in Lumpkin, Georgia, where Mr. Singer owned most of the tenant houses and collected the rent weekly.

8. a. We have experienced new homes where borrowers never moved in. In most instances, some salesman talked the family into the purchase and the loan was pushed through before family realized that they were obligated. Until construction was started did they realize that they never wanted a new home. Uninformed borrowers.

b. Not aware of any problem, however, we have made a number of loans to employees of a builder.

c. We have had builder to pay insurance premium and attorney fees for a borrower, however, as soon as this surfaced, this stopped immediately.

9. a. The only noticeable problem we have noted on manufactured homes is:

(1) Concentrated modular houses of same construction (Look alikes).

(2) Some poor constructed modular homes where inferior material was installed that we were not aware of until the dwelling had been occupied for awhile. (Example) Manufactured homes with a pasteboard material with wood appearance, cheap windows and poor ventilation.

(3) Higher cost than conventional constructed homes. Was caused by volume building.

(4) The inferior manufactured homes companies have now gone out of business where FmHA has rejected their construction.

b. FmHA has lost more on manufactured homes (mainly modular) versus stick built because the construction would not take abuse, therefore, it takes more to repair this type house than a good conventional house. However, the amount of loss has not been recorded on manufactured homes versus conventional built homes.

J. N. McDuffie, *State Director.*

HAWAII

Rural housing programs in Hawaii are administered by the California State office.

IDAHO

1. The five counties in Idaho with the most serious problems in their 502 rural housing operations are Minidoka, Shoshone, Kootenai, Twin Falls and Payette. In the following chart, the number following the counties is the number of bankruptcies, conveyances, foreclosures pending and houses in inventory at this time in each county (1) and the percent figure is the percent of delinquent borrowers (2):

County	(1)	(2)
Minidoka	20	25.2
Shoshone	18	22.3
Kootenai	17	22.3
Twin Falls	11	27.5
Payette	9	22.5

Briefly the problems in these counties is the lack of adequate personnel to process and service rural housing loans in a timely manner. We believe the delinquency could be lowered if the county staff had more time to service the loans. The number of bankruptcy, conveyances, foreclosures pending and inventory is not a serious problem at this time as losses have been minimal.

2. Estimates of the number of 502 loans in state and counties in the following categories:

a. (1) Number of seriously delinquent and (2) percentage where liquidation has been initiated.

	(1)	(2)
Minidoka County	54	13
Shoshone County	15	100
Kootenai County	13	100
Twin Falls County	11	55
Payette County	13	3
Total for entire State	350	24

b. Number of loans (1) defaulted since January 1, 1974; (2) Estimated loss from such defaults; and (3) estimated number of defaults with (4) anticipated loss in near future:

	(1)	(2)	(3)	(4)
Minidoka County	34	$10,590	11	0
Shoshone County	10	1,700	4	0
Kootenai County	15	500	1	0
Twin Falls County	13	1,906	18	0
Payette County	1	0	3	0
Total for entire State	150	20,000	74	$15,000

c. The number of houses which are vacant (1); number of such houses which have not been taken into inventory (2); number of houses vacant and also in default (3):

	(1)	(2)	(3)
Minidoka County	9	6	0
Shoshone County	0	0	0
Kootenai County	2	0	0
Twin Falls County	2	1	1
Payette County	2	0	0
Total for entire State	30	14	7

d. The number of houses now in inventory or expect to be taken into inventory which may be difficult or impossible to sell under present conditions (1) and prices related to investment. Also number in default that may be difficult or impossible to sell under present conditions and prices related to investment (2):

	(1)	(2)
Minidoka County	3	
Shoshone County	1	0
Kootenai County	0	0
Twin Falls County	0	0
Payette County	2	0
Total for entire State	10	12

3. a. Subdivisions containing 50 or more FmHA loans:
Ada County:
1. Sunset Villa, 85 homes, Idaho Development (Dewey Bills).
2. Hidden Valley Estates, 200 homes, Idaho Development (Dewey Bills).
3. Fox Ridge, 200 homes, Andy Anderson (A&C Corporation).
4. Desert View, 70 homes, Andy Anderson (A&C Corporation).
Twin Falls County:
1. Southwood, 52 homes, Regal Manufacturing Company, Twin Falls, Idaho.

b. Builders over 100 FmHA homes:
1. A & A Enterprises—Amyx and Allen, Boise, 160.
2. Regal Manufacturing, Twin Falls, 115.
3. Boise Cascade (Modular) Arland Rasmussen, Idaho Falls, Idaho, 130.
4. Boise Cascade Stick Built, Idaho Falls, 101.
5. Roy Johnson, Post Falls, Idaho, 105.

c. & d. We do not believe there has been even 10 defaulted loans in any subdivisions.

e. Investigated:

1. EZE Homes—Ace Caldwell and Phil Bare. Forged borrowers names to checks and had problems with warranty work. Poor quality control. Corrected deficiencies and then dissolved partnership. Phil Bare operating real estate office and constructing homes at present time.

4. No overall written analysis has been made of the reason, extent or notice of development and defaulted 502 loans.

5. There has been two significant problem RRH loans in the state:

Rhen and Payne—Loan was for eight units. Shortly after loan was made, lumber mill moved and the units cannot be kept fully rented. Very small isolated town. Loan is current.

Blakley Manor—individual—Harrison, Idaho. Loan made for eight units. Borrower method of construction, expanded to 16 units and spent all funds. State office forced borrower back to eight units and made subsequent loan to complete. Loan was reamortized last year and is now operating satisfactorily. Loan is current.

6. There has not been any problems to date of disposing of houses in subdivisions.

7. There has been one subdivision at Filer in Twin Falls County where there was a concentration of problem borrowers. This was a case of very poor processing of applicant selection. The majority of these families have moved on and the loans transferred. Eight to ten loans were involved.

8. Instances of problem or defaults were:

a. Borrower never moved in—not aware of any.

b. Association between borrower and builder or developer. Not aware of any.

c. Undisclosed inducements between borrower and builder and developer. Not aware of any.

9. Opinion of whether we believe there is a significant difference between manufactured and constructed houses in Idaho in respect to:

a. Problem involving default loans—no.

b. Gain or loss per house taken on inventory—no. We do not believe there is any significant difference.

WILLARD D. STEVENSON,
State Director.

ILLINOIS

1. The five counties were identified in our report of August 1, 1974. The major problems are:

a. Delinquencies of more than six months' duration.

b. A larger than average number of houses in inventory.

c. A larger than normal number of foreclosures.

d. A larger than average number of houses vacant.

We estimate there will be an additional 20 loan defaults in the five problem counties, with a loss of approximately $20,000. For the state, we estimate that in the near future there will be an additional 75 loan defaults, with a loss of approximately $50,000.

For the five problem counties, we estimate that there are 15 houses which are vacant but which have not been taken into inventory. For the state, we estimate there are 53 houses vacant which have not been taken into inventory.

We do not anticipate having any difficulty selling any of the houses which are in inventory in any of the problem counties or the state at prices that are not reasonably related to the FmHA investment.

2. Our response is as follows:

a. The information for the five problem counties was previously provided. For the state, there were 497 loans delinquent more than six months, of which one-third were in liquidation.

Questions b, c, and d under 2 have been answered under Question 1.

3. a. There are three subdivisions in the state containing 50 or more FmHA financed homes. These subdivisions are:

(1) Country Orchards Subdivision near Mattoon, Illinois, with approximately 80 homes built by Dale Greenwood and Herman Development Corporation.

(2) A subdivision in Ashmore, Illinois, with approximately 65 homes built by Albert Anderson.

(3) A subdivision in Rapids City, Illinois, with approximately 65 homes built by Hynds and Howe and Target Construction Company.

b. The following contractors have constructed more than 100 homes in the last three or four years for Farmers Home Administration:

(1) Herman Development Corporation—120 by conventional construction.
(2) Egyptian Housing Development Corporation—150 manufactured homes.
(3) Bud Pierce—110 manufactured homes.
(4) Osburn Lumber Company—110 conventionally constructed homes.
(5) Southern Illinois Lumber Company—125 conventionally constructed homes.
(5) Hynds and Howe and Target Construction Company—120 manufactured homes.
(7) Martin and Spivey, Green Star Homes, and Tri-County Homes—125 conventionally constructed homes.

c. The two subdivisions in the state where there have been 10 or more defaulted loans since January 1, 1973, are located at Humboldt, Illinois, and Ashmore, Illinois.

d. Martin and Spivey with Green Star Construction Company and Tri-County Construction Company in combination have constructed homes of which 25 or more have defaulted since January 1, 1973.

e. No investigations have been run, nor have any been requested, because of alleged irregularities involving operations of large scale builders.

4. The District Director, sometimes accompanied by State Office personnel, makes a detailed analysis of each delinquent 502 loan in the state each year. The detailed instructions for solving the problem are written into the County Office case file in the running records. A summary of the report is written in Form FmHA IL 460-1, and a copy of the report is sent to the State Office. Attached is a copy of the most recent analysis for each of the five problem counties listed for the state. There are other counties shown on the reports, since in some County Offices serving more than one county, a combined report was prepared. A state summary is not available. Due to the time required to duplicate reports from 102 counties and the bulk of mailing, we are not sending a state report.

5. The only significant problems noted in the multi-family housing are as follows:

a. Ava Civic Improvement Association, a rural rental housing project for senior citizens, is in the process of being conveyed to the government. The Board of Directors and membership have lost interest in the project even though the units are nearly 100% occupied.

b. Albion Homes, Inc., a rural housing project, has never been completely occupied. We have authorized the corporation to lease units to ineligible occupants.

c. The Modesto Improvement Corporation has been unable to lease all of the units to eligible senior citizens. We have authorized them to lease units to low to moderate income families.

We have had continuing problems with the Union-Jackson Labor Housing Project. For three consecutive years, the area has been hit by spring freezes which virtually eliminated the peach crop. This resulted in little or no demand for laborers at a time when ordinarily the units would have been filled.

6. We are not aware of any instances in our state within the past three or four years where we have acquired title to houses in the same subdivision which we could not resell at realistic prices and in which we were still making new loans or issuing commitments.

7. We know of no instances in any areas of the state where there has been a noticeable concentration of borrowers in a single subdivision who have made no, or almost no, payments after loan closing. We have only had scattered instances across the state where a borrower has made no, or few, payments after loan closing.

8. a. We have only had three or four instances in the state where the borrowers never moved into the home after the loan was closed.

b. We have on numerous occasions made loans to employees of the builder or developer. Although the relationship existed between the borrower and the developer, we have not noted any significant problems as a result of this relationship.

c. There may have been cases where the builder or developer paid insurance or loan installments for low income families in order to help them get a home, but we are not aware of any specific instances where this has happened.

9. In our state, there has been no significant difference between manufactured and conventionally constructed homes in respect to defaults or average gain or loss per house taken into inventory. We have established a register of housing in Illinois for manufactured homes. We believe the register has been helpful in controlling the quality of manufactured homes financed in our state.

CHARLES W. SHUMAN,
State Director.

Attachment.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING 5 COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Alexander	242	59	14	2	6	4
Massac	154	40	10	2	2	0
Coles	191	25	2	0	0	0
Warren	132	37	2	0	1	0
Kankakee	425	108	27	1	1	9

County	Sold: Number fiscal year 1974	Sold: Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Alexander	1	+$200	4	Loss	0	0	0	4
Massac	0	0	0		0	0	0	0
Coles	7	−6,613	6	Gain	0	0	0	6
Warren	0		0		0	0	0	0
Kankakee	7	−14,440	8	Loss	0	0	0	3

INDIANA

1. *The Corydon County Office*—serving Harrison, Floyd, and Crawford Counties. This office had a very rapid expansion of the 502 program in calendar years 1972 and 1973. Many families were wanting to move from the inner city of Louisville, Kentucky to the countryside. Rural subdivisions were some distance from their work, this required additional expense in getting to and from work. Most families had never owned a home, and the care of the home and the yard appears to be beyond their financial and physical ability. These additional expenses of transportation, including shopping, and home maintenance over renting has created financial problems causing further difficulty in keeping mortgage payments on schedule, thus creating defaulted loans.

The Bedford County Office—serving Lawrence and Martin Counties. This office provided a housing program primarily of new homes in 1971 and 1972. This area had many substandard homes and limited building of new homes for a period of several years because of limited financing. Salaries and pay scale for the area is limited and many borrowers were eligible for interest credit. Money management and problems of owning a home for the first time were important factors contributing to defaulted loans.

Dillsboro County Office—serving Ohio, Ripley, and Dearborn Counties. This office had a rapidly expanding housing program in existing dwellings in 1970 and 1971. Borrowers were exceptionally rough on housing. Large families with no experience in home ownership caused rapid deterioration and destruction of some homes. Pride of ownership ceased to exist and poor money management contributed to defaulted loans.

Scottsburg County Office—serving Clark and Scott Counties. This office had a rapidly expanding housing program in new and existing dwellings in 1970 and 1971. Some rural subdivisions on individual disposal systems were a problem in the beginning but have since been properly installed in many instances. Personnel for proper account servicing has been a limiting factor at certain times at this location, thus creating defaulted loans.

Bloomington County Office—serving Monroe and Brown Counties. This office had a rapidly expanding rural housing program in 1969, 1970, and 1971. Some difficulty has been experienced in site selection and the proper functioning of individual disposal systems. Most families were new to home ownership and experienced additional transportation expense by living in rural subdivisions away from work and shopping centers. Limited experience in money management on the part of the borrowers contributed to several defaulted loans.

2. See attachment.

3. a. The following subdivisions contain 50 or more FmHA financed homes.
   Orchard View, Georgetown, Indiana, Transamerican: 100.
   Oak Park, Palmyra, Indiana, George Snyder: 80.
   Prairieton, Prairieton, Indiana, Charles Stevens: 100.

b. The following builders have built more than 100 homes in Indiana in the past four years. Bob Howard of Clarksville, Indiana using the corporate name of Transamerican Homes. These are manufactured homes using the trade name of Kingsbury Homes manufactured by Boise Cascade.
   Lux Realty, West Lafayette, Indiana: 100 plus.
   Charles Stevens, Farmersburg, Indiana: 100 plus.
   Candle Construction, Kingsford Heights, Indiana: 100 plus.
   Pate Construction Co., Inc., Kokomo, Indiana: 100 plus.
   Ralph Biggs, Inc., Decatur, Indiana: 100 plus.

c. None.
d. None.
e. None.
4. No.
5. No.
6. No.
7. No.
8. a. None noted.
b. One instance in State Line Indiana. Builder blackballed.
c. No.
9. No significant difference.

J. D. Thompson, *State Director*.

Attachment.

	State	Corydon	Bedford	Bloomington	Dillsboro	Scottsburg
a. (1) 6 months or more behind schedule	519	48	56	25	40	27
(2) Percent of seriously delinquent where liquidation action has been initiated	57	20	12	20	45	60
b. (1) Number of loans defaulted since Jan. 1, 1973 to June 30, 1974 estimated	897	63	91	42	48	64
(2) Estimated loss from such defaults	$1,000,000	$60,000	$90,000	$35,000	$192,000	$64,000
(3) Estimated number of loans for 1974 in default	258	24	28	14	25	15
(4) Estimated loss from future defaults, 1974	$250,000	$25,000	$14,000	$14,000	$100,000	$15,000
c. (1) Number of FmHA financed homes vacant in inventory	140	10	20	5	2	10
(2) Number of FmHA financed homes vacant not in inventory	100	10	5	5	15	8
d. (1) Houses in inventory where investment exceeds sale price	80	8	20	3	2	6
(2) Houses expected to be placed in inventory that investment will exceed anticipated sale price	80	10	5	5	5	10

IOWA

Iowa has no counties with significant problems. At the present time we have 6 cases under foreclosure in the state. Delinquency over 3 months is presently only 1.8 percent for the state.

R. R. Pim, *State Director*.

KANSAS

1. Three counties in Kansas have enough cases delinquent, more than six months, to be of particular concern to the State Office.

Cherokee: Located in Southeast Kansas, is the largest volume office in number of loans outstanding. Has approximately 60 loans delinquent with perhaps 20 delinquent more than 6 months. There is a fairly high turnover in ownership and occasional abandonment of property. Resale opportunity is excellent. The county supervisor can process transfers quickly and successfully if he can obtain cooperation of the borrower. There very well could be five foreclosures yet this fiscal year and two to four voluntary conveyances in this county. The county supervisor, with the help of the state office, is working on the hard core delinquent cases. There are six vacant houses in this unit, three are presently in inventory. Sale prospects are good. Losses may run from $750 to $1,000 per house on foreclosure cases usually because of interest and real estate taxes accrual during the four to six months it takes to complete the foreclosure. May have some profit to the inventory account on a few of the cases.

This office has been financing a high percentage of new houses which hold value well.

Miami: Located close to Kansas City, has been a high volume office in recent years and leads in new construction. Our recent report shows 40 delinquent loans and 20 over 6 months. This office also has had extra attention from the state office and district director with a return visit by the state staff scheduled. The county supervisor has been made aware of the necessity of constant follow-up with delinquent cases. There may be three to five foreclosures the balance of this fiscal year with little loss (under $1,000) per house expected. Vacancy is not a problem in this county.

Rice: Has been a high volume office in loan making in past years. Largest problem here is making loans on old poor houses. New house construction has been very limited. Repeat loans on existing properties have added to the Government investment. Our July report showed 46 delinquent accounts with 16 over 6 months. Losses have run $3,000 to $5,000 per house in a few cases. There could be 5 to 10 foreclosures or voluntary conveyances in this office the balance of the fiscal year. Vacancies have been a problem in this office, some houses vacant six months; three known vacancies at this time. Two properties will sell considerably less than the debt, $6,000 loss.

2. Questions relating to the problem counties are listed in No. 1.

a. For the balance of the state, we estimate 50–75 loans may be delinquent more than 6 months. Liquidation action likely has been initiated on one-half of these cases and most of them will be solved by cash sale or transfer.

b. Of the number reported in 2a, 50 were likely in default on January 1, 1973. Losses may average $500 per house and be compensated by some profit sales out of inventory. We anticipate 20 to 30 foreclosures or voluntary conveyances a year for the next couple of years.

c. Vacancy is not a great problem with perhaps 10 to 15 vacant at any one time around the state. No particular pattern is apparent.

d. There are presently eight houses in inventory with another five to ten possibly in process. A large loss will be taken on one of the properties ($2,000 to $3,000) minor loss on two others ($500 to $1,000), the balance should sell for about the inventory value.

3. a. We are not aware of any subdivisions containing 50 FmHA financed homes in Kansas.

b. We do not presently have builders in Kansas operating on the scale of 25 homes financed by FmHA per year.

c. We are not aware of a subdivision with 10 defaults since January 1, 1973. Cherokee County has two different subdivisions that would have a total of at least ten defaults between them. Different builders are involved. One subdivision had septic tank failure. This has been corrected by extension of city sewer. The other subdivision has drainage difficulties. We do not believe there is a relationship between delinquencies and these problems.

d. We do not see any relationship between a particular builder and defaulted loans.

e. Kansas does not have "large scale" builders or developers and we are not aware of investigations or legal actions. There is an occasional individual law suit involving small builders.

4. We have neither made nor received a written analysis of the problem delinquent cases in Kansas. Problem offices are discussed in staff meetings. Causes established and corrective action agreed on.

5. Only two Rural Rental Housing projects have had serious delinquency problems. In one case the town's local major business (packing plant) opened and

closed several times with the result that laborers moved in and out of town. The other project overbuilt for the need.

6. The regions with the highest degree of turnover of inventory properties generally have not had large losses. Property seldom stays in inventory in these areas more than 60 days. Many times buyers are waiting for the completion of the inventory process in order to close the purchase.

7. We are not aware of any instances where a noticeable number of borrowers have failed to meet their initial payments.

8. There may have been an occasion where the borrower failed to move into the house after purchase. We have not observed any irregularities involving the seller providing misleading credit references or making improper inducements for the sale of property.

9. We have not been observing any particular difference with defaulted loans involving manufactured homes vs. conventionally built. So far, manufactured homes have been a very minor part of new home business.

E. MORGAN WILLIAMS,
State Director.

KENTUCKY

1. See attached copy of FmHA Bulletin No. 5049(465).

2. (*a*):

	Loans seriously delinquent	Percent liquidation action started
State	510	10
County:		
Carter	24	29
Daviess	6	83
Edmonson	15	27
Madison	30	23
Russell	27	30

(*b*):

State—900 loans defaulted since 1-1-73 with a loss of approximately $5,000. The number of defaulted loans is a revolving number and we do not expect this to increase. The additional anticipated loss is estimated to be *minimal*:

	Loans
Carter Co	50
Daviess Co	12
Edmonson Co	30
Madison Co	60
Russell Co	60

(*c*):

State	15
Carter Co	1
Daviess Co	2
Edmonson Co	0
Madison Co	3
Russell Co	2

(*d*):

State	8
Carter Co	1
Daviess Co	0
Edmonson Co	0
Madison Co	2
Russell Co	2

3. (*a*):

Garden Heights Subdivision—Daviess County.

Gardenside Subdivision—Daviess County.

The prime builder or contractor for the two subdivisions listed above is Sargent & Sturgeon Builders, Inc., Owensboro, Kentucky.

Paddock Place Subdivision, located near Versailles, Kentucky. The prime builder is Ball Homes, Inc., Lexington, Kentucky.

(*b*) None.

(*c*) None.

(*d*) None.

(*e*) Special investigation presently in progress at the Greenville County Office, Greenville, Kentucky, by the OIG involving irregularities by contractor. The final report by OIG has not been received by this office.

4. None.
5. None.
6. No.
7. No.
8. (a) 1; (b) None known; (c) None known.
9. (a) None; (b) None.

JOHN H. BURRIS,
State Director.

Attachment.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING 5 COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Delinquent RH loans		Delinquent more than 6 months		Number in liquidation by—		
		Number	Percent	Number	Percent	Transfer	Voluntary conveyance	Foreclosure
Carter	420	116	27.6	24	5.7	7	0	0
Daviess	167	36	21.5	6	3.6	2	1	2
Edmonson	180	66	36.7	15	8.3	3	0	1
Madison	442	103	23.3	30	6.8	2	0	5
Russell	728	74	10.2	27	3.7	2	1	5

County	Sold		Inventory					
	Number fiscal year 1974	Estimated net gain or loss (fiscal year 1974)	Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	30	Total number vacant houses in inventory
Carter	1	$350	0		0	0	0	0
Daviess	2	0	0		0	0	0	0
Edmonson	0		0		0	0	0	0
Madison	0		2	Loss	0,	0	0	2
Russell	2	-586	1	do	0	0	0	1

LOUISIANA

1. Five counties that we feel have the most serious problems in their Sec. 502 RH program and a brief description of the nature and extent of the problems involved are:

Morehouse Parish: High delinquency rate (19% delinquency as compared to 12% state average on 1-1-74); one house on inventory with four other problem cases in various stages of liquidation.

Concordia Parish: High delinquency rate (18% delinquency as compared with 12% state average on 1-1-74); three houses in inventory with one vacant and three problem cases in various stages of liquidation.

Avoyelles Parish: Delinquency above state average (16% as compared to 12% state average on 1-1-74); two houses in inventory with both vacant and 10 problem cases in various stages of liquidation.

Point Coupee Parish: Delinquency rate excessive (22% as compared with state average of 12% on 1-1-74); two houses in inventory with one vacant and three problem cases in various stages of liquidation.

Franklin Parish: Delinquency rate above state average (18% as compared to state average of 12%); two houses on inventory with both vacant with two problem cases in liquidation.

2. Total number of Sec. 502 houses in the state: 10,085; Morehouse Parish: 201; Concordia Parish: 222; Avoyelles Parish: 520; Pointe Coupee Parish: 478; and Franklin Parish: 397.

a. SERIOUSLY DELINQUENT (6 MONTHS OR MORE)

	Seriously delinquent	Percent where liquidation action started
Morehouse Parish	12	33
Concordia Parish	9	33
Avoyelles Parish	48	20
Pointe Coupee Parish	41	7
Franklin Parish	21	14

b. NUMBER OF LOANS DEFAULTED SINCE JAN. 1, 1973, AND ESTIMATED LOSS

	Number defaulted	Estimated loss
Morehouse Parish	3	$6,000
Concordia Parish	7	0
Avoyelles Parish	9	3,600
Pointe Coupee Parish	6	200
Franklin Parish	7	3,000

ESTIMATE OF ADDITIONAL LOAN DEFAULTS IN NEAR FUTURE

	Estimate of additional defaults	Estimated loss
Morehouse Parish	6	$3,000
Concordia Parish	2	0
Avoyelles Parish	1	1,000
Pointe Coupee Parish	1	500
Franklin Parish	1	500

c. NUMBER OF HOUSES VACANT TOGETHER WITH AN ESTIMATE OF THE NUMBER OF SUCH VACANT HOUSES WHICH HAVE NOT BEEN TAKEN INTO INVENTORY

	Vacant houses	Number not in inventory
Morehouse Parish	7	6
Concordia Parish	3	2
Avoyelles Parish	3	1
Pointe Coupee Parish	2	1
Franklin Parish	3	1

d. None. Inventory properties are now moving reasonably fast with minimal loss in relation to our investment.

3. a. None.

b. Terrell Industries, Farmerville, Louisiana, has built 130 FmHA houses in the past 3 to 4 years. This company has operated in Lincoln, Union, Catahoula, Claiborne, LaSalle, and Caldwell Parishes. This builder specializes in conventionally built homes.

c. No.

d. No.

e. No.

4. We have not received a written analysis of the overall extent, nature and/or causes of problems involving delinquent or defaulted Sec. 502 loans in this state.

5. Significant problems involving multi-family housing financed by FmHA.

a. The most significant problem of this nature involved a RRH borrower who leased his 32 apartment units to the Parish Housing Authority who in turn entered into an Annual Contribution Contract with HUD. The problem was that the contributions of monthly rent paid by HUD to the housing authority did not make its way to the FmHA borrower who in very short order became seriously delinquent. The case had gotten as far as account acceleration before we were able to work out an agreement with the borrower for the orderly repayment of the amount due. The account is now current.

6. No, we are not aware of any instance in this state within the last 3 or 4 years where new loans or commitments were made in a subdivision at a time when FmHA had acquired or appeared likely to acquire title to houses in the same subdivision which it would not be able to resell at realistic prices.

7. No, we are not aware of any instances in this state in which there has been a noticeable concentration of borrowers in a single subdivision or area who made no payments, or almost no payments, after loan closing.

8. We are not aware of any instances involving problem or defaulted Sec. 502 loans in this state in which:

a. the borrower never moved in;

b. the borrower was an employee of the builder or developer, or the primary credit reference was provided by the builder or developer, or there was some other significant association between the borrower and builder or developer other than buyer and seller;

c. undisclosed inducements, such as payment of insurance or of loan installments, were provided by the builder or developer to the borrower.

9. In our opinion there is no significant difference between manufactured and conventionally constructed houses in this state with respect to:

a. problems involving defaulted loans.

b. the average gain or loss per house on houses taken into inventory and resold, based on the original amount loaned and unpaid, repair costs, etc.

THOMAS E. DEWEY, Jr.,
State Director.

MAINE

1. We no not feel that we have any serious problems with our Section 502 rural housing loans that pertains to any one or group of offices. Areas of concern at this time with our 502 program in the State of Maine is statewide and they are namely:

a. High cost of housing (approximately $30,000 for 24x40 modest, ranch style house).

b. Insufficient personnel to make what we consider necessary inspections on projects under construction.

2. Total rural housing caseload in the State of Maine—11,000.

a. Total number of rural housing loans delinquent over six months is approximately 650.

b. Total number of loans defaulted since January 1, 1973 is 40, approximate loss $116,000. Anticipated defaults in near future, 30. Estimated loss $40,000.

c. Number of FmHA finance houses which are vacant—10. Estimated number not in inventory, 5.

d. None.

3. a. None.

b. We do not have any builder or developer who has constructed 100 or more FmHA financed houses in their own development. We do have several firms that have sold houses to individuals on scattered lots owned by the applicants that would exceed 100 or more in number.

c. No.

d. No.

3. e. No.

4. Yes. We are enclosing a sample of a rural housing delinquency report that was recently completed in our county office. This review is completed every year

in every office with a follow up made by the district director and rural housing state office staff.

5. No.
6. No.
7. No.
8. a. No.
b. No.
c. No.

9. No. We do not believe there is any significant difference between manufactured houses that we will finance and conventionally constructed houses either in price or materials and workmanship.

We have correlated this report with information supplied to us by our District Directors.

MAHLON M. DELONG,
State Director.

MARYLAND

Rural housing programs in Maryland are administered by the Delaware State office.

MASSACHUSETTS

Rural housing programs in Massachusetts are administered by the Vermont State office.

MICHIGAN

1. See attached report.

2. a. See attached report.

b. We have no report which gives us the exact number of loans which have defaulted since 1-1-73, however, we would estimate that this would be approximately 400 loans for the State. We have no basis whatsoever to estimate additional loan defaults or additional losses.

c. See attached report.

d. It appears out of 117 houses in inventory that we are encountering substantial loss on approximately 20. These losses are due primarily to abandonment by the borrower and damage which occurs between the time of abandonment and when the County Supervisor learned of the abandonment to secure the house.

3. a. Hanks Building; Holly, MI—Approximately 70 houses. Spring Valley Builders; Oakland County, MI—approximately 50 houses. There are probably some other subdivisions which we have been involved in but at this time we do not know names of builders in order to provide a report.

b. Hanks Building; Oakland-Lapeer County, MI. There are others but we are not familiar with names and locations. If you wish this information, we will provide a questionnaire to our county offices in order to obtain this information.

c. Manfred Subdivision No. 2, Durand, MI—approximately 30 defaulted loans. Manfred Subdivision No. 1, Durand, MI—approximately 26 defaulted loans.

d. None, to the best of our knowledge.

e. None, to the best of our knowledge.

4. We have not made a written analysis of the overall extent, nature or cause of delinquency.

5. There have been no significant problems in this State involving multi-family housing.

6. No, we are not aware of any instances of this nature.

7. No, we are not aware of any instances of this nature.

8. No, we are not aware of any instances of this nature.

9. With respect to manufactured versus conventionally constructed houses, we have seen no differences with respect to defaulted loans and very little difference, if any, on gain or loss per house. Most of our problem houses have been older homes rather than new construction.

CALVIN C. LUTZ, *State Director.*

Attachment.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING 5 COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Van Buren	483	149	20	2	1	20
Shiawassee	488	163	29	5	5	3
St. Joseph	437	75	19	0	7	2
Clare	97	31	13	0	1	4
Lenawee	285	89	29	0	1	3

County	Sold: Number fiscal year 1974	Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Van Buren	7	[1] $14,740	10	Loss	0			10
Shiawassee	7	[1] 11,700	9	do	0			9
St. Joseph	7	[1] 2,130	2	do	0			2
Clare	3	[1] 1,960	1	do	0			1
Lenawee	1	[1] 550	2	do	0			

[1] Loss.

MINNESOTA

1. Four Minnesota counties with most serious Section 502 problems are:

North Cass County.—Low income, considerable transient families, erratic employment opportunities. Therefore, many servicing problems with delinquencies, nonpayment of insurance, nonpayment of taxes, vacancies, etc.

Clearwater County.—Low income, inadequate economic activity in area. Delinquencies and tax and insurance servicing problems.

North St. Louis County.—Erratic employment with corresponding loss of jobs. Transient population needing loans. Delinquencies and tax and insurance problems.

Itasca County.—General erratic employment. High costs and uncertain income. General delinquency and servicing problems.

2.

	State	North Cass	Clearwater	North St. Louis	Itasca
Seriously delinquent RH borrowing	150	10	9	4	4
Percent liquidation initiated	15	20	10	50	25
Defaulted loans since Jan. 1, 1973	564	20	37	35	19
Estimated loss	$75,000	$15,000	$10,000	$12,000	$5,000
Additional expected	$30,000	$10,000	$5,000	$8,000	$3,000
Vacant	12	2	1	2	1
Estimated not yet in inventory	5	1	1	1	0
Number in inventory hard to sell	15	3	1	1	1

3. (a) No subdivisions of 50 FmHA-financed homes; (b) No; (c) No; (d) No; (e) One manufactured home dealer (Northland Homes, Duluth, MN) was put on ineligible status in early 1973.

4. No.

5. Rural Rental Housing—One contractor who also packages RRH applications, has been performing erratically on construction contracts. We have initiated ineligible status action, but are holding off completing the action pending corrections of mistakes and positive action to prevent future major irregularities.

6. We have had some problems in rural villages where we have had either an inventory house for sale or a borrower or two who should transfer their loans.

At the time of this situation, we also had applications to construct new dwellings in the village. Some applicants were quite choosy about the type of houses they wanted to buy. No major problem.

7. No major concentration where subdivision neighbors did not pay RH loans.

8. (a) Limited number; (b) Two (Seiler and K. Nelson); (c) None.

9. (a) About the same default problems with manufactured and conventional homes where applicant history is the same. However, many of the type of applicants who deal with manufactured home sellers are the transient type of applicant and are involved in more defaulted loans; (b) Generally, a manufactured home in the agrarian areas of Minnesota is not as well accepted as "stick-built" homes. Near urbanized areas, there does not appear to be a difference in resale of used manufactured homes as compared to "stick-built." Average loss on manufactured homes is slightly higher.

GORDON F. KLENK,
State Director.

MISSISSIPPI

1. Listed below are the five counties in Mississippi which we believe have the most serious problems in their 502 rural housing program:

Bolivar.—Bolivar County has a rural housing caseload of 1,064. The county has made too many loans too fast to people with too low income. Inadequate personnel to counsel with the low income people has also contributed to the problem. Several OEO programs have been closed down which reduced the income of some rural housing borrowers. Many people in this county are on a fixed income of welfare and social security and this income has not kept pace with inflation.

Harrison and Hancock.—Too many homes were financed by FmHA and HUD after Hurricane Camille. We were not selective enough with our applicants. The use of developers, builders, and packagers also contributed to this problem.

Jefferson Davis and Copiah.—These counties have a caseload of 761 and 461, respectively. The primary reason for the problem in these two counties is making loans to people we should have rejected. This problem is a direct result of packagers. Both county supervisors in these counties have been replaced.

2. As of June 30, 1974, Mississippi had a total rural housing caseload of 39,612. The following information pertains to the five counties listed in question 1.

(*a*) Bolivar, 95 loans seriously delinquent, 8 percent in liquidation.

Harrison, 6 loans seriously delinquent, 33 percent in liquidation.

Hancock, 63 loans seriously delinquent, 10 percent in liquidation.

Jefferson Davis, 71 loans seriously delinquent, 22 percent in liquidation.

Copiah, 15 loans seriously delinquent, 45 percent in liquidation.

2. (*b*) Bolivar, 38 loans defaulted since January 1, 1973 with $7,200 loss; 40 loans will probably default with $5,000 loss.

Harrison, 16 loans defaulted since January 1, 1973 with $8,000 loss; 3 loans will probably default with $3,000 loss.

Hancock, 10 loans defaulted since January 1, 1973 with $9,000 loss; 3 loans will probably default with no loss.

Jefferson Davis, 30 loans defaulted since January 1, 1973 with $65,000 loss; 16 loans will probably default with $25,000 loss.

Copiah, 34 loans defaulted since January 1, 1973 with $8,200 loss; 7 loans will probably default with no loss.

(*c*) Bolivar, 14 homes vacant and 2 homes not in inventory.

Harrison, 18 homes vacant and 2 homes not in inventory.

Hancock, 5 homes vacant and no homes not in inventory.

Jefferson Davis, 19 homes vacant and 7 homes not in inventory.

Copiah, 18 homes vacant and no homes not in inventory.

(*d*) Listed below are the number of houses now in inventory or expected to be taken into inventory which we believe may be difficult or impossible to sell.

Bolivar none, Harrison 18, Hancock 5, Jefferson Davis 11, Copiah 2.

3. (*a*) Listed below are the subdivisions in Mississippi which contain 50 or more FmHA financed homes.

Adams County

Highland Subdivision, Natchez—250 homes. Developer: Highland Realty Company owned by Howard Gardner, Stanley Burkley, and Paul Green, Natchez.

Broadmoor Subdivision, Natchez—75 homes. Developer: Howard Pritchartt, Jr., and Paul Green, Natchez.

Lincoln County

Brignall Subdivision, Brookhaven—150 homes. Developer: Truman Williams, Brookhaven.

Hinds County

Westview Subdivision, Bolton—66 homes. Builder: Mid-South Management Corporation and Rattle & Snap Company, Jackson.

Madison County

Magnolia Heights Subdivision, Flora—180 homes. Developer: Fred Estes, Flora.

Leflore County

Westfield Place Subdivision, Itta Bena—71 homes. Developer: W. P. Kimbrough, Itta Bena.

Humphreys County

West Gate Subdivision, Belzoni—65 homes. Builder: Irvin & Sons, Isola; Y-D Lumber Company, Belzoni; Sunflower Lumber Company, Indianola; Quick Construction Company, Indianola; Le Development Company, Clarksdale; Morris Griffin, Contractor, Belzoni; and Hollis Kilpatrick, Contractor, Belzoni.

Sunflower County

Smith Addition, Ruleville—55 homes. Developer: Quick Construction Company, Indianola, and Virden Lumber Company, Indianola.

Slay Addition, Ruleville—100 homes. Developer: Ruleville Lumber Company, Ruleville; Virden Lumber Company, Indianola; and Kent Building and Supply Company, Ruleville.

Coahoma County

East Park Subdivision, Lyon—78 homes. Developer: Bill Willis, Clarksdale.

Tallahatchie County

Goose Pond Subdivision, Webb—68 homes. Developer: Denman Construction Company, Charleston.

Depot Subdivision, Charleston—approximately 75 homes. Developer: Denman Construction Company, Charleston.

Tunica County

White Oak Subdivision, Tunica—147 homes. Developer: Noble Crigler, Tunica.

Marshall County

Meadow Subdivision, Holly Springs—58 homes. Developer: Eagle Realty, Holly Springs.

Union County

Colonial Garden Subdivision, New Albany—57 homes. Developer: Modular Construction Company, Marks.

Clay County

North Gate Subdivision, West Point—64 homes. Developer: Cendex Corporation, West Point.

Forrest County

North Haven Subdivision, Hattiesburg—113 homes. Developer: Arthur H. Weaver, Hattiesburg.

Glen Haven Subdivision, Hattiesburg—69 homes. Developer: Arthur H. Weaver, Hattiesburg.

Quitman County

Sigler Subdivision, Marks—73 homes. Developer: Modular Construction Company, Marks.

3. (*b*) Listed below are the builders or developers who have built 100 homes or more financed by FmHA. Best estimates available.

Mangum & Holt Corporation, Liberty—100 homes.

R. C. Thomas, Port Gibson—100 homes.

Truman Williams, Brookhaven—200 homes.

Fred Estes, Flora—180 homes.
Berryhill Builders, Inc., Isola—100 homes.
Quick Construction Company, Indianola—250 homes.
Virden Lumber Company, Indianola—110 homes.
Ruleville Lumber Company, Ruleville—105 homes.
Willis, Willis, and Ellis, Clarksdale—100 homes.
Denman Construction Company, Charleston—150 homes.
Highland Realty Company owned by Howard Gardner and Stanley Burkley, Natchez—350 homes.
Cendex Corporation, West Point—110 homes.
J. H. Bryan, Inc., West Point—125 homes.
Gary & Yates, Eupora—100 homes.
Sullivan Construction Company, Louisville—200 homes.
Arthur H. Weaver, Hattiesburg—190 homes.
Modular Construction Company, Durable Homes, and C & H Developers, Marks—444 homes.
R. C. Speights, Prentiss—100 homes.
Tom Miller, Starkville—100 homes.

3. (*c*) Listed below are the subdivisions in Mississippi which have had 10 or more defaulted loans since January 1, 1973.

Strong emphasis was placed on loan making by the National and State Offices which resulted in county supervisors approving loans for applicants whose incomes were too low to pay their living expenses and meet their house payments. Many of the families have failed to maintain their yards and houses as expected.

Highland Subdivision, Natchez—12 defaults. The use of developers, builders, and packagers, which resulted in making loans to families with too low income.

Southside Subdivision, Gloster—13 defaults. The use of developers, builders, and packagers. The developer led the applicants to believe the streets would be hardsurfaced and since that time the developer has gone out of business. However, the Town of Gloster has recently started hardsurfacing the streets.

Magnolia Heights Subdivision, Flora—14 defaults. Poor applicant selection in that FmHA was trying to make loans to too low income families.

Western Hills Subdivision, Oxford—20 defaults. The use of developers, builders, and packagers. Poor applicant selection.

Colonial Garden Subdivision, New Albany—15 defaults. The use of developers, builders, and packagers. Contractors were slow in meeting the requirements of the builder's warranty. Poor applicant selection.

Charles Thomas Subdivision, Ackerman—10 defaults. The use of developers, builders, and packagers. Poor applicant selection.

North Gate Subdivision, West Point—12 defaults. The use of developers, builders, and packagers. Poor applicant selection.

Sigler Subdivision, Marks—14 defaults. The use of developers, builders, and packagers. Poor applicant selection.

Briarwood Subdivision, New Albany—15 defaults. The use of developers, builders, and packagers. Poor applicant selection.

Tyrone Subdivision, Prentiss—12 defaults. Poor quality construction and poor applicant selection.

Hillcrest Subdivision, Purvis—17 defaults. The use of developers, builders, and packagers. Poor applicant selection.

Stamps Subdivision #2, Prentiss—19 defaults. The use of developers, builders, and packagers. Poor applicant selection.

Pinehill Subdivision, Gulfport—12 defaults. The use of developers, builders, and packagers. Poor applicant selection. HUD(FHA) has 330 units in inventory in Harrison County with a majority located on the north side of Gulfport. This will add to the problem of disposing of these units in an orderly manner.

(*d*) No builders or developers in Mississippi have been associated with a total of 25 or more defaulted loans since January 1, 1973.

(*e*) To our knowledge the only special investigations conducted in Mississippi because of alleged irregularities involving operations of large scale builders or developers are listed below.

A special investigation was conducted involving Pacific Buildings, Inc. Insofar as we know, no irregularities were found.

An investigation was made of the Durable Homes Copiah County operation. The charges were that Durable Homes had advance information on the availability of interest credit at the time the moratorium was placed on this program on January 8, 1973. Results of the investigation are unknown.

4. We attach information which has been prepared previously concerning defaulted 502 loans in Mississippi.

5. There have been no significant problems in Mississippi involving multifamily housing financed by FmHA.

6. When we discover that FmHA borrowers are becoming delinquent in their payments and liquidations are pending, we issue a moratorium for that subdivision and do not make loans or commitments in the subdivision until such time as we have sold the government inventory property.

7. To our knowledge there has been no noticable concentration of borrowers in a single subdivision or area where no payments were made after the loans were closed.

8. We are not aware of any instances involving problem or defaulted Section 502 loans in Mississippi as outlined in question 8.

9. Practically all our experience with manufactured homes has been with Pacific Buildings, Inc., Marks, Mississippi. In the early stages the builders who erected the homes were not thoroughly familiar with the procedures. After builders attended schools to learn how to erect these homes, we found no significant differences in the homes compared to stick built homes. Recommendations from our architect and construction inspectors have resulted in this company making changes that have improved the houses considerably. There has been no significant difference in the number of loans defaulted nor has there been any difference in losses sustained. The majority of our losses can be attributed to abuse of houses by families or vandalism after houses have been vacated.

J. F. Barbour III,
State Director.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING 5 COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by—		
				Transfer	Voluntary conveyance	Foreclosure
Bolivar	1,029	34	34	3	2	20
Copiah	459	17	12	0	1	9
Hancock	602	10	10	1	1	2
Jefferson Davis	751	37	30	0	0	21
Madison	502	20	11	3	0	13

County	Sold		Inventory					
	Number fiscal year 1974	Estimate net gain or loss (fiscal year 1974)	Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Boliver	12	(1)	21	(2)	0	0	0	8
Copiah	6	(1)	27	(2)	0	0	0	20
Hancock	18	(2)	21	(2)	0	0	0	3
Jefferson Davis	2	(1)	21	(2)	1	0	0	5
Madison	28	(2)	9	(2)	0	0	0	0

[1] Gain.
[2] Loss.

MISSOURI

1. Five counties previously furnished on FmHA Bulletin 5049(465), copy attached.

2. Approximately 21,000 Section 502 RH loans in Missouri; (*a*) Estimate 300 loans are 6 months or more delinquent. Liquidation on approximately 30% of the seriously delinquent loans has been commenced in the 5 counties reported in FmHA Bulletin 5049(465); (*b*) Approximately 60 of the RH loans in the 5 counties have defaulted since January 1, 1973. Losses have been almost negligible. The present trend is expected to continue, however we have been able to credit sale inventory houses at a "break even" figure in most recent cases; (*c*) Vacant

houses not in inventory or in process of becoming inventory property represent a small number—perhaps 30 to 40 statewide. Approximately 80 vacant houses in inventory; (*d*) may experience difficulty in selling approximately 20 houses in the Bolivar, Missouri area.

3. (*a*) Yes. See reports from Districts VI and IX; (*b*) see District VI report; (*c*) no; (*d*) no; (*e*) n/a.

4. No.

5. No.

JOHN O. FOSTER,
State Director.

Attachment.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING FIVE COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY, AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County office	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Columbia (Boone Company)	400	86	20	5	2	5
Carthage (Jasper County)	700	249	25	4	5	0
Bolivar (Polk and Dallas Counties)	310	60	13	3	20	2
Eldon (Morgan-Miller County)	400	99	18	8	3	3
Steelville (Crawford-Dent County)	430	107	10	0	1	0

County office	Sold		Inventory					
	Number fiscal year 1974	Estimated net gain or loss (fiscal year 1974)	Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Columbia	39	No loss	15	Break even	0			13
Carthage	17	do	17	do	0			5
Bolivar	3	$1,000 loss per house.	16	Loss ($1,500–$2,000 each).	0			16
Eldon	6	No loss	14	Loss ($500–$1,000 each).	0			8
Steelville	13	do	16	Loss ($500 each)	0			14

MONTANA

This report indicates there are no counties with significant problems.

1. See attachment.

2. (*a*) 1800 502 housing loans.

(*b*) (1) Whitehall office—1 foreclosure; Principal due $5,180.00; Inventory Value $3,000.00; Loss to program $2,180.00.

(2) Cut Bank Office—1 foreclosure, sold outside the program made $6,000 and applied that to the delinquent OL account.

(3) Miles City office—1 voluntary conveyance, no loss expected.

(4) Billings office—1 foreclosure, expect pay off Aug. 30, 1974.

(5) Sidney office—foreclosure. Borrower signed a new promise to pay.

(*c*) 1 house vacant in Miles City.

(*d*) None known.

3. (*a*) No; (*b*) no; (*c*) no; (*d*) no; (*e*) no.

4. No.

5. No.

6. No.

7. No.

8. (*a*) No; (*b*) no; (*c*) no.

9. (*a*) None; (*b*) none.

The houses that have had serious default problems have been older houses. We have had no serious default problems with new houses. Montana has averaged less than 6 serious default housing loans in the past three years.

RICHARD D. SMILEY,
State Director.

Attachment.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING FIVE COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County office	Number active RH loans	Delinquent RH loans		Number delinquent more than 6 months	Number in liquidation by—		
		Number	Percent		Transfer	Voluntary conveyance	Foreclosure
Whitehall	242	31	13	26	1	0	0
Miles City	112	16	14	3	1	0	0
Great Falls	128	24	19	3	0	0	0
Hamilton	108	14	13	2	0	0	0
Sidney	92	11	12	2	0	0	0

	Sold		Inventory					
	Number fiscal year 1974	Estimated net gain or loss (fiscal year 1974)	Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Miles City	2	+$60	1	No	0	0	0	0

NEBRASKA

The percentage of delinquencies, the number of houses in inventory, the number of defaulted cases and the number of loans in foreclosure, we feel, is significant and we do not have any problem counties.

The number of delinquencies reported in response to FmHA Bulletin No. 5049 (465) was incorrect. It reflected delinquencies over three months instead of six months. These should be corrected as follows:

Ogallala	8
Ord	1
Omaha	4
Falls City	1
Lincoln	3

K. L. Bowen,
State Director.

NEVADA

Rural housing programs in Nevada are administered by the California State office.

NEW HAMPSHIRE

Rural housing programs in New Hampshire are administered by the Vermont State office.

NEW JERSEY

Rural housing programs in New Jersey are administered by the Delaware State office.

NEW MEXICO

We are attaching a copy of FmHA Bulletin 5049(465) submitted to you on July 19, 1974, and are supplementing that information as follows: Aside from delinquency, we do not consider that we have serious problems within our RH program in New Mexico. Any time, however, that a county has, in our opinion, over 20% of their accounts delinquent by as much as three months, serious problems will develop if drastic collection efforts are not made. The county offices as reported on the attached bulletin are counties in which our delinquency is highest. They are all counties in which our program has moved the fastest. This points out to us that we do not have time, with personnel available, to continue a reasonable volume program and reach adequate understandings regarding borrower obligations at the same time.

We do not have any county where abandonments, foreclosures or acquisition of unsaleable property present any special problem. However, we obtain through foreclosure or conveyance one or two houses per year which have been mistreated or vandalized and which are later sold, usually outside the program, at a loss to the government. These are most often houses purchased as existing homes and are usually several years old.

Our main overall problems will develop as borrower's incomes remain fairly constant and cost of living, taxes, insurance and maintenance increase. Many of the lower income families' take home pay does not keep pace with increasing costs.

We present, as follows, the information for the committee in accordance with the numbered items as requested of the state office:

1. The five counties reported on the copy of the bulletin report are the most serious delinquencies.

2. The first portion of this information is contained in the bulletin. (*a*) Probably less than 3% of the most serious delinquent loans in any of the counties have had liquidation action considered; (*b*) See attachment; (*c*) See attachment; (*d*) At the present time, we have a total (state-wide) of approximately eight houses in inventory, none of which should be difficult to sell at a price comparable to our investment.

3. (*a*) We have only one subdivision in New Mexico containing more than 50 homes financed under our program. This is the Del Cerro Subdivision located approximately 20 miles south of Las Cruces. The builder is a subsidiary contracting firm for Stahmann Farms, Inc., a rather large farm operation. It presently contains about 70 homes and will probably increase to approximately 100 before it is completed; (*b*) We know of no builder who has built 100 or more FmHA financed homes during any period; (*c*) No single subdivision contains as many as ten defaulted or seriously delinquent loans. There is no pattern as far as subdivision or builder is concerned to our problem cases; (*d*) No builder or developer has been associated with more than four or five defaulted or seriously delinquent loans since January 1, 1973; (*e*) No special investigation or legal action has been taken on this subject.

4. We have not made any written analysis of problems involving delinquent or defaulted loans. We have, however, continually stressed through District Directors and otherwise the need to keep accounts current and move promptly when transfers or conveyances are found advisable.

5. We have no significant problem with multi-family housing in New Mexico. All housing is presently current, fully occupied and appear to be operating successfully.

6. We have had no instances where new loans or commitments were made while the same subdivision contained problem loans.

When a locality develops into a problem whereby we have frequent transfers or conveyances, we have automatically slowed our approval of new loans or commitments.

7. We have areas in which borrowers are slower to make payments soon after loan closing. It has presented no special problem, however, as we usually take immediate action toward getting borrowers to keep payments current.

8. We have had no significant problem from the items outlined under this paragraph.

9. In our opinion, there is no significant difference between manufactured or conventionally constructed homes in regard to collections, servicing problems or other related items.

As stated at the beginning of this memorandum, we consider our delinquency itself to be probably our greatest problem. We recognize that if we do not continually remind borrowers their payments must be made that more serious problems will develop.

If more information is needed on this subject, please advise.

CARROLL HUNTON, *State Director.*

Attachment.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING FIVE COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by—		
				Transfer	Voluntary conveyance	Foreclosure
Dona Ana-Otero	427	130	35	1	0	0
Bernalillo-Sandoval	410	122	55	4	2	1
Chaves-Lincoln	340	91	29	3	2	0
Valencia	316	26	9	5	0	2
Lea	293	27	12	4	0	1

County	Sold		Inventory					
	Number fiscal year 1974	Estimated gain or loss (fiscal year 1974)	Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Dona Ana-Otero	1	[1] $4,457	1	[1] $7,000	0	0	0	1
Bernalillo-Sandoval	3	[1] 3,190	5	[1] 4,700	0	0	0	0
Chaves-Lincoln	0	0	0	0	0	0	0	0
Valencia	4	[1] 21,500	0	0	0	0	0	0
Lea	0	0	0	0	0	0	0	0

[1] Loss.

NEW YORK

In addition to our response to FmHA Bulletin No. 5049(465) dated July 19, 1974, we are supplying additional information on problems in our state as follows:

1. (*a*) High real estate taxes (state, county, village and school); (*b*) High cost of living; (*c*) Proximity to resort areas and colleges; (*d*) Abuse of other credit; (*e*) Marital problems; (*f*) Lack of responsibility after assuming home ownership; (*g*) Increased unemployment; (*h*) Length of time required by the U.S. Attorney to complete foreclosure action.

2. (*a*) Number of delinquent rural housing borrowers six or more months behind schedule—837; (*b*) Loans defaulted since January 1973—93; estimated loss—$186,000; (*c*) Number of FmHA financed houses vacant—54; Number of vacant houses not yet in inventory—29; (*d*) 10 homes.

3. (*a*) Kings Acres, Unitized Building Corporation, Stockport, New York—approximately 80 homes.

(*b*) 1. Craver-Coulter Corporation, Cortland, New York—120 homes. Works in central New York area, supplies manufactured and conventional homes: 2. Shelter Technology, Inc., Shirly, New York—250 homes. Builds conventional; 3. Mauro Enterprises, Shirly, New York—125 homes. Builds conventional; 4. Toussie Enterprises, Medford, New York—150 homes. Builds conventional; 5. Riverside Homes, Inc., Riverhead, New York—140 homes. Builds conventional.

(*c*) No.

(*d*) No.

(*e*) 1. Toussie Enterprises, Inc.—alleged misrepresentation of property and falsifying loan applications as packager; 2. Kings Acres—dissatisfaction with completion of roads and sewers by developer. 3. Del Signor—subdivision soil drainage problem resulting in surface seepage of sewage.

4. No.

5. No.

6. No.

7. No.

8. (*a*) Yes, three instances; (*b*) Yes, one instance; (*c*) No.

9. (*a*) No; (*b*) No.

DAVID J. NOLAN, *State Director.*

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING FIVE COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Canandaigua (Yates and Ontario)	362	124	51	0	0	4
Jamestown	276	100	18	1	1	0
Baldwinsville (Onondaga and Oswego)	516	216	52	0	5	4
Riverhead	1,305	300	32	0	1	2
Cobleskill (Albany and Schoharie)	377	137	46	0	15	7

County	Sold: Number fiscal year 1974	Sold: Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Canandaigua	3	+$1,767	3	−$7,000		None		3.
Jamestown	6	−19,800	0			do		None.
Baldwinsville	4	−25,210	0			do		Do.
Riverhead	0		0			do		Do.
Cobleskill	6	−12,479	1	−3,200		do		1.

NORTH CAROLINA

1. We believe the following counties have the most serious problems in their 502 rural housing program in North Carolina:

Stanly.—The housing program has grown rapidly in this county. In administering a growing program we failed to verify information presented by packagers. Loans were made to families with questionable credit histories and families with insufficient incomes. Loans have also been made on sites that were not properly developed.

Wilson.—The major problem in this county was failure to verify information furnished by packagers. We have now corrected this situation. There are also several subdivisions in this county where the developer failed to carry out the proposed plans. We have inadequate drainage and in one case this is causing erosion within the subdivision.

Bladen.—The 502 program has grown rapidly. Many loans were made to families with weak credit histories and insufficient incomes. The County Supervisor has also been unable to carry out an adequate collection program.

Orange.—Large number of loans made during the last two years. The major problem in this county is that a developer failed to follow through and complete his subdivision according to plans. The packager also furnished information concerning families that was not accurate. We failed to verify this information.

Pitt.—Large housing program. Major problem—several small older subdivisions that were not properly planned and therefore the subdivisions do not have adequate drainage systems. Also, information furnished by packagers was not verified and loans were therefore made to families with weak credit reports and insufficient incomes.

Sampson.—Large program. Loan making has been weak in that loans have been made to families with insufficient incomes and weak credit reports. Also, the County Office personnel must take action to carry out a better and more effective collection program.

2. (*a*) Total number of Section 502 Housing loans in North Carolina—37,706; (*b*) Counties identified in response to question 1:

1. Counties	Number 6 months delinquent	Percent delinquent
Bladen	40	10
Orange	22	25
Pitt	54	10
Sampson	22	21
Stanly	38	33
Wilson	30	36

2. Counties	Number of loans defaulted since Jan. 1, 1973	Estimated loss	Additional loan defaults	Estimated loss
Bladen	12	$1,000	15	$3,900
Orange	4	0	10	0
Pitt	15	0	10	0
Sampson	8	0	6	0
Stanly	12	1,000	15	3,000
Wilson	28	500	5	0

3. Counties	Number of homes vacant	Number vacant not in inventory
Bladen	4	1
Orange	2	1
Pitt	5	1
Sampson	1	0
Stanly [1]	11	9
Wilson	1	0

[1] Number houses now in inventory difficult to sell—1.

3(a) Subdivision	Location	Number of FmHA loans	Builder's name
Melfield Woods	Rt. 1, Haw River	61	John W. Winter's Co.
Inglewood	Troutman, N.C	87	Fortis Enterprises, Inc.
Cambridge	Rockingham, N.C	140	Do.
Timberline	King, N.C	170	Do.
Briarwood	do	70	Do.
Walnut Tree	Walnut Cove, N.C	55	Do.
Rollingwood Estates	Dudley, N.C	160	Wells Development and Construction Co.
Evergreen Estates	Chocowinity, N.C	55	D. & M. Development Co.
College Grove	Wingate, N.C	53	Rushing Agency, Inc.
Kenwood	Rt. 4, Jacksonville, N.C	52	J. V. Jessup Construction Co., Inc.
White Oak West	Wilson, N.C	100	J. Charles Anthony.
Perry Hills	Mebane, N.C	65	Atlantis Corp.
Homestead Park	Hickory, N.C	50	Shook Builders.
Oxford Park	Conover, N.C	50	Do.
Starmount Village	Newton, N.C	53	Don Hendrick.
Lansdowne	Conover, N.C	60	Carolina Homes Builders.
Meadowbrook Village	Hickory, N.C	60	Meadowbrook Village, Inc.
Can Creek Estates	RFD, Sanford, N.C	77	Van R. Groce.
Shearin Hills	Castle Haynes, N.C	62	Ward Custom Home Builders.
Eaglewood Forest	Hope Mills, N.C	150	Pioneer Homes, Inc.
Arran Hills	Fayetteville, N.C	69	United Realty and Construction Co.
Meadowood	do	52	Do.
Collier West	Lenoir, N.C	90	Broyhill Building and Development Co.
Chapel Hills	Boone, N.C	53	Chapel Hills of Boone, Inc.
Craftwood	Mocksville, N.C	65	Davie Building Co., Inc.
Suburban Acres	RFD, Shelby, N.C	75	M. S. Development Co.
Quail Hollow	do	50	Mills & Suttle.
Montevista Park	do	60	M. S. Development Co.

3(*b*) The following builders or developers have built a total of 100 or more FmHA houses in North Carolina during the past 3 or 4 years: 1. Fortis Enterprises, Inc., King, N.C.—462 units. Fortis Enterprises builds a conventionally constructed dwelling. They operate in a 6-county area in the North Central part of North Carolina; 2. Wells Development Co., Goldsboro, N.C.—Approximately 200 units. They build a conventionally constructed dwelling. This company operates in the Southeastern part of the State, but primarily in Wayne County; 3. Pioneer Homes, Inc., Hope Mills, N.C.—150 units. They build a conventionally constructed dwelling and operate in Cumberland County, North Carolina; 4. United Realty & Construction Co., Fayetteville, N.C.—165 units. This company builds a conventionally constructed dwelling. Located in Cumberland County, North Carolina; 5. Shook Builders, Conover, N.C.—130 units. This company builds a conventionally constructed dwelling. Located in Catawba County, North Carolina.

3(*c*) The following subdivisions have had ten or more defaulted FmHA loans: 1. White Oak—Wilson County—27 defaults. Poor applicant selection and failure to verify information provided by packagers; 2. Cambridge—Rockingham County—13 defaults; Poor applicant selection.

3(*d*) We do not have any builders in North Carolina who have been associated with 25 or more defaulted loans since January 1, 1973.

3(*e*) We have not had any type of special investigation because of alleged irregularities by large-scale builders or developers.

4. We have not made (or been provided) a written analysis of the problems involving delinquent and/or defaulted Section 502 loans.

5. We have had no significant problems in North Carolina involving the multi-family housing program.

6. We have not made new commitments in subdivisions where we had housing in inventory.

7. We have had no concentration of borrowers in a given subdivision not making their housing payments.

8. We are not aware of any instances involving problem or defaulted Section 502 loans in which: (*a*) The borrower never moved in; (*b*) The borrower was an employee of the builder or developer. There have been cases where borrowers and builders have entered into side agreements without our knowledge or consent. (*c*) Where undisclosed inducements have been used by the builder.

9. We have only limited experience in financing manufactured homes, particularly modular, because they have not been competitive with conventionally built houses. We therefore know of no significant difference between manufactured and conventionally constructed homes as it pertains to the following: (*a*) Problems involving defaulted loans; (*b*) The average gain or loss per house taken into inventory.

JAMES T. JOHNSON,
State Director.

NORTH DAKOTA

1. The five counties selected are listed below with a brief description of the nature and extent of the problem involved.

Burleigh—Percent of delinquent loans more than 6 months & transfers
McLean—same as above for Burleigh County
Morton—same as above
Ward-Renville—same as above
Rolette—Number of homes in inventory

The problem of delinquent loan accounts 6 months or more can be handled by more effective and timely supervision by county staffs. Form FmHA 389-223, Rural Housing Monthly Payment Account Status Report, now being prepared by Finance is a very effective method of identifying the loan accounts that need servicing action.

The number of loan accounts in process of transfer will increase as the outstanding number of loan accounts increases. The length of time required to process transfers needs to be reduced. This would readily be accomplished by computer terminals in county offices. Payment items in transit at the time of initiation of a transfer do cause difficulty in determining unpaid balances. This difficulty should be self corrective by communication by borrowers with county staffs.

The number of homes in inventory in Rolette County is a specific problem to that county not general to the entire state of ND. Its identity is that of families being unwilling or unable to assume the responsibility of home ownership. This factor is not easy to determine on an individual basis and will continue to be a problem until the social, cultural and environmental aspects of the families is improved.

2. (*a*) State—6100: (1) 310—4%; (2) 25—$53,000; (3) 9; (4) 11.

(*b*) 5 counties—1034: (1) 40—5%; (2) 15—$26,000; (3) 6; (4) 5.

The above estimates do not include loan accounts with transfers pending that are being processed on a routine basis.

3. (*a*) Surrey, ND—100 homes—Ask, Inc.—Stumbo Construction; Apple Valley, Rural Bismarck, ND—75 homes—Ask, Inc.; Ft. Lincoln Estates, Rural Bismarck, ND—130 homes—Developers, Inc.—Rippley Construction & Roland Bieber; Riverview Heights—Rural Mandan, ND—53 homes—Developers, Inc.; Roughrider Estates—Rural Mandan, ND—75 homes—Roland Bieber & 502 Self-Help Housing.

(*b*) Ask, Inc. and Heinsohn Realty. Ask, Inc. Has constructed approximately 200 homes. Heinsohn Realty through Developers, Inc. and Roland Bieber have also constructed approximately 200 homes. Each builder has built conventionally constructed homes.

(*c*) No single subdivision has had more than 10 defaulted loans.

(*d*) None

(*e*) None

4. District Directors with the assistance of the county staff conduct an annual Delinquent and Problem Case Review.

5. The only significant problem experienced with multi-family housing in ND is the inability to obtain prospective contractors willing to bid on publicly advertised nonprofit type projects. We are of the opinion that nonprofit groups should be allowed a choice of either publicly advertising or negotiating for a contract price. It is felt in many instances a lower negotiated contract price could be obtained if the nonprofit corporation could negotiate with a reputable builder.

6. None

7. No

8. (*a*) None; (*b*) None; (*c*) None.

9. (*a*) None; (*b*) None.

This state has a very limited number of loans on manufactured homes. Only one home manufacturer is located in the state of ND. Transportation costs for manufactured homes brought into the state do not generally put these homes on a competitive cost basis with conventionally constructed homes.

JOSEPH J. SCHNEIDER,
State Director.

Attachment.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING FIVE COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Burleigh	249	54	9	5	0	0
McLean	128	30	8	3	0	1
Morton	177	39	6	6	0	2
Rolette	231	37	5	0	0	1
Ward	186	33	9	1	0	0
Renville	63	24	4	0	0	0

County	Sold		Inventory					
	Number fiscal year 1974	Estimated net gain or loss (fiscal year 1974)	Number (current)	Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Burleigh	0	0	0	None	0	0	0	0
McLean	3	[1] $9,500	0	do	0	0	0	0
Morton	0	0	0	do	0	0	0	0
Rolette	2	[1] 7,100	8	Loss	0	0	0	8
Ward-Renville	0	0	0	do	0	0	0	0

[1] Loss.

OHIO

1. In response to FmHA Bulletin No. 5049(465) we advised that the five county offices in Ohio having the most serious problems with their FmHA–RH operations were Findlay, Hillsboro, Gallipolis, Mt. Vernon and Eaton. The problems in these five units center around delinquency and failure of borrowers to assume their homeownership responsibilities. In none of these offices are the problems so great that they cannot be overcome when the agency has a staff and implements to do the job.

2. (*a*) The following is offered in connection with the above five county offices. The number of borrowers six months or more behind schedule are Findlay-136; Hillsboro-100; Gallipolis-55; Mt. Vernon-55; and Eaton-273. There are probably 70 pending liquidations in the State of Ohio. It would be approximately 5 percent of the accounts considered seriously delinquent; (*b*) We have no records in this office from which we can determine the number of loans that have "defaulted" since January 1, 1973. We can advise, however, that on June 30, 1974 there were 87 loans in the process of being liquidated at an average principal balance of $13,000. We would estimate that the loss on such loans would average $1,000. With present economic conditions we anticipate a substantial increase in the number of defaulted loans. In general we hope to be able to dispose of these properties at a small loss, if any; however, with limited credit outside of FmHA, market value could change and our losses would consequently increase; (*c*) At the present time there are approximately 159 vacant properties in Ohio and approximately 90 of these houses are not in inventory but are in the process of being liquidated in one manner or another; (*d*) In Ohio there are presently 67 houses in inventory and we anticipate that at least 100 of the vacant properties will be taken into inventory. At this time we do not anticipate any difficulty in selling these properties under the conditions that have existed to date, but as previously noted, should economic conditions continue the present trend, we may experience difficulty in disposing of them at market value if that generally falls much below FmHA's investment in them.

3. (*a*) FmHA has been involved in very few subdivisions in the state in which there are 50 homes, consequently there may be an instance or two where there are 50 FmHA financed homes but we do not have information at hand to respond specifically to this question; (*b*) It would be necessary for us to contact all county offices to determine whether or not there are any builders who have built a total of 100 or more FmHA financed homes in Ohio during the past three or four years. The majority of the homes FmHA has financed are stick built homes built by relatively small builders and developers; (*c*) We are not presently aware of any subdivisions in Ohio where there have been 10 or more defaulted loans since January 1973. The primary factors involved in the default of RH loans in Ohio cannot be attributed to the dwelling, the subdivisions or the developer. The main contributing factor to such defaults is the agency's inability to work closely enough with the applicant at the outset or to work closely enough with the family after they become borrowers; (*d*) We are not aware of any builder or developer which has been associated with a total of 25 or more defaulted loans in Ohio since January 1, 1973; (*e*) FmHA in Ohio has to date not become involved with large-scale builders or developers. Such organizations are only now beginning to be aware that there is a housing program in the rural areas of Ohio.

4. Program reviews and OIG audits reveal that problems involving delinquent or defaulted loans primarily center around the agency's inability to properly service loans as previously indicated.

5. This State has experienced no significant problems involving multi-family housing financed by FmHA.

6. We are not aware of any instances in recent years in which any loans or commitments have been made in any subdivision when other FmHA properties in the subdivision were being taken into inventory. FmHA in Ohio, as previously noted, has been involved in very few large subdivisions to date and certainly if there was not a market for any proposed housing would not issue commitments in a subdivision whether there were defaulted loans in that subdivision or not.

7. We have not been aware of any instances where there has been a concentration of borrowers who have ignored their loan responsibilities. It is understandable, however, that defaulting borrowers in any area making a lot of noise about not making payments and getting away with it will have an effect on other borrowers who might be within hearing distance.

8. (*a*) We are only aware of a couple instances in Ohio where a borrower never moved into the home FmHA financed for him; (*b*) We have a few instances where the borrower and builder or seller had some kind of relationship which indicated to the borrower that he should receive more than if the relationship did not exist. Problems usually revolve around "side agreements" between the two parties and the FmHA loan account becomes the victim of the "squabble"; (*c*) We have had reports of undisclosed inducements but have not been able to prove them. We are aware that some builders included in their loan package certain inducements for a prospective buyer but we are not aware of where those inducements have contributed to problems or defaulted cases.

9. (*a*) We have noted no significant differences between manufactured and conventionally constructed houses with respect to any problems involving defaulted loans; (*b*) Neither do we find any differences in the gain or loss on the houses whether they are manufactured or conventionally constructed. We have had relatively few problems with a manufactured product. The problems develop in the fact that too many who are not "builders" attempt to erect manufactured homes and are not capable of doing the job properly. We have no argument with a manufactured product which meets the minimum property standards. Our main concern is that the product is a dwelling and not a double-wide mobile home.

We recognize that we have probably not responded to this request as well as would be desired; however, the problems we have incurred in Ohio with defaulted loans can very infrequently be laid at the doorstep of the builder or developer. When the agency is staffed and has the implements to properly conduct the program with which it has been charged, an even more enviable record of success can be established.

LESTER M. STONE,
State Director.

OKLAHOMA

1. We do not feel there are significant problems in as many as five counties as defined in the letter of August 13, 1974, from the Counsel for the Intergovernmental Relations Subcommittee. The following information is submitted for the State of Oklahoma.

2. (*a*) The number of seriously delinquent loans in Oklahoma is estimated to be 1600. These are loans 6 months or more behind schedule. Approximately 10% of these loans are in the process of liquidation; (*b*) We have interpreted a defaulted loan as one involving liquidation action (including transfers). On 30 acquired properties sold, the average loss was $551.67. On the 485 transfers, the total loss was $3,197.71 for an average loss of less than $10; (*c*) We estimate 65 vacant houses in Oklahoma of which 30 have not as yet been taken into inventory; (*d*) Possibly 10 houses will be difficult or impossible to sell at prices reasonably related to the FmHA investments in them. This is based on a $2,000 difference in prices.

3. (*a*) We have no subdivisions in Oklahoma containing 50 or more FmHA financed homes; (*b*) Perdue Housing Industries, Inc., Chickasha, Oklahoma. Furnished a few manufactured houses from the Chickasha, Oklahoma, plant and sectional houses from their Chickasha and Stigler, Oklahoma, plants on a statewide basis. Estimate between 300 and 400 houses financed by FmHA within the past 3 years. Company sold about 1½ years ago and now being operated as Perdue Housing, Inc., by the new owners; (*c*) Subdivisions in Oklahoma with 10 or more defaulted FmHA loans are: Idabel Heights (McCurtain County)—12 defaulted cases. Poor applicant selection. Sequoyah Subdivision (Caddo County)—12 defaulted cases. Too far from town with no city services available and poor quality of homes built at that time; (*d*) To our knowledge there are none; (*e*) In June 1971, OIG conducted an investigation of Perdue Housing Industries, Inc., to determine whether they were participating in falsification of information in packaging applications to FmHA for rural housing loans and to determine whether the County FmHA Office for Grady County failed to require combined family income to be reported thus having a contributory effect toward such falsification. Each case cited has been resolved without disciplinary action against packager, family or agency personnel.

4. No written analysis made.

5. None.

6. None.

7. We are aware of no instances.

8. (*a*) Not more than five and all resolved but one at this time; (*b*) No; (*c*) Aware of none.

9. (*a*) No difference between manufactured and conventionally built houses; (*b*) There is no difference in our losses between manufactured and conventional housing to our information. The average loss on houses sold from inventory the past year is about $550.

L. W. JOHNSON,
State Director.

OREGON

1. *Oregon City—Clackamas County.*—This is a high volume office lacking in personnel.

The Dalles—Hood River County.—The main problem in this office has resulted from the lack of personnel. Also, the slowness on the part of the developer/builder in completing construction has also been a problem in two subdivisions.

Salem—Marion and Polk Counties.—This is a high volume office and staffing has been inadequate.

St. Helens—Columbia County.—Problems involved stems from the lack of personnel and an area of low economic and employment stability. Also, some problems were incurred with older homes financed.

Coquille—Coos County.—Problems in this office have resulted from the lack of personnel.

Fairbanks.—The remote areas serviced by this office makes it most difficult to carry on an effective servicing program.

2. Total number of Section 502 RH Loans: Oregon—4,000; Alaska—750.

	Total Sec. 502 loans	6 mo. or more delinquent	Percent liquidation action initiated on serious delinquent loans (percent)
a. Oregon:			
Oregon City (Clackamas)	566	20	60
The Dalles (Hood River)	137	2	100
Salem (Marion and Polk)	621	30	25
St. Helens (Columbia)	176	4	100
Coquille (Coos, Curry)	170	10	75
Alaska: Fairbanks	250	40	30

	Number of loans defaulted since Jan. 1, 1973	Estimated loss from such defaults	Estimated number of additional loan defaults	Estimated amount of additional loan loss
b. Oregon:				
Oregon City (Clackamas)	50	$5,000	15	$5,000
The Dalles (Hood River)	20	500	10	3,000
Salem (Marion and Polk)	30	10,000	20	15,000
St. Helens (Columbia)	25	15,000	3	5,000
Coquille (Coos, Curry)	20	10,000	5	5,000
Alaska: Fairbanks	100	10,000	10	30,000

	Number of FmHA vacant homes	Estimated number of vacant homes which have not yet been taken into inventory
c. Oregon:		
Oregon City (Clackamas)	10	5
The Dalles (Hood River)	8	4
Salem (Marion and Polk)	10	5
St. Helens (Columbia)	2	0
Coquille (Coos, Curry)	0	2
Alaska: Fairbanks	20	15

d. Number of homes in inventory or are expected to be taken into inventory which may be difficult or impossible to sell under present conditions or prices reasonably related to the FmHA investment in them.

Oregon:	
Oregon City (Clackamas)	2
The Dalles (Hood River)	3
Salem (Marion & Polk)	3
St. Helens (Columbia)	1
Coquille (Coos, Curry)	2
Alaska: Fairbanks	10

3. a. Name	Location	Builders	Number of FmHA homes
Cinderella	Eagle Point	Ed Hill	50
		Bernard Young	
Pletzer's Green	Lebanon	Republic Development Co	
		Rutledge Homes	
		Pacific Coast Homebuilders Inc	53
Orchard View	Odell	American Pacific Corp	
		West Shore Group	50
Young's Addition	Eagle Point	Bernard Young	50

b. Name	Number of FmHA homes financed	Type of construction	Counties where builder operates
Pacific Coast Homebuilders	400	Conventional	Clackamas, Marion, Polk, Lincoln, Linn, Cane, and Umatilla.
Hoodview Builders	200	do	Clackamas, Marion, and Linn.
Rutledge Homes	150	do	Clackamas, Marion, Lane, and Linn.
Republic Development Co	100	do	Linn.

(*c*) None.

(*d*) None.

(*e*) None. No special investigations have been conducted or any legal action has been taken because of alleged irregularities involving operations of large-scale builders or developers of FmHA financed homes.

4. We have not made a recent study as to the overall problems of delinquent RH loans; however, the following reasons have been observed as to the cause for defaulted loan accounts: (*a*) Poor money management; (*b*) Impulsive buying; (*c*) Loss of employment; (*d*) Domestic problems; (*e*) Borrower unable or unwilling to assume responsibilities of home ownership.

5. None of any major concern. One RRH project had a fairly slow rent-up, however, it is now full.

6. No.

7. No.

8. (*a*) Yes; (*b*) No; (*c*) No.

9. (*a*) No; (*b*) No. We only have a small number of manufactured homes; therefore, we have no basis for a conclusion at this time.

STANLEY G. SCHMIDT,
Chief, Rural Housing.

PENNSYLVANIA

1. As requested we are listing the five (5) counties with the most severe RH loan delinquency along with the reasons and extent of the problems involved. They are as follows:

Chester County.—28% delinquency—This is the only county in Pennsylvania where a self-help housing project exists. The owners are mostly low income people working on the mushroom farms. The delinquency among these people is high because of a lack of education, marital problems and in season work. However, delinquency has been reduced during the last year.

Clinton County.—Delinquency is rather high (26%) due to a drop in income. Piper Aircraft Corporation has had a severe cutback in orders thus causing a reduction in working hours and unemployment. Hurricane Agnes and some apathy on part of borrowers is partly to blame. Although present delinquency is high we feel that the office now has the situation under control and last year's trend was down.

Crawford County.—The delinquency is 27.4% and mostly due to older loans made to real low questionable applicants by a former County Supervisor who is now deceased. Considerable effort is being made to reduce the delinquency problem and delinquency was reduced last year.

Lycoming County.—The delinquency is about 27% partly due to apathy on part of borrowers and lossed income due to Hurricane Agnes. Also this area was hit hard by Hurricane Agnes thus disrupting a normal process of activities. A reduction of delinquency is also happening in this area.

Wyoming County.—The delinquency in this county is about 35%. It is due to a leveling off of income and apathy on part of borrowers. Furthermore, the county was damaged due to Hurricane Agnes. A concentrated effort has been made in this area to bring the situation under control.

It is interesting to note that three (3) of the counties listed were devastated by Hurricane Agnes. Very few of our borrowers were directly damaged but the County Office staffs were involved in making EM loans to farmers where a great deal of time was spent thus reducing collection efforts.

The State RH staff and District Directors have conducted special meetings in the high delinquency offices (crash program to meet with borrowers and train County Office staff) so that a definite program of attack may be implemented. Continuous follow-ups have been established by District Directors.

2.

	Seriously delinquent (a)		Defaulted since Jan. 1, 1973 (b)		Vacant homes (c)		Inventory (d)
	Number	Percent of number	Number	Loss	Number	Out	In
County:							
Crawford	35	40	14	$3,500	11	10	0
Lycoming	37	37	31	4,000	5	4	0
Wyoming	24	55	30	2,000	5	4	0
Clinton	10	30	6	1,500	3	3	0
Chester	14	21	12	2,000	2	2	0
State	320	18	64	45,000	99	93	0

3.a SUBDIVISIONS OF 50 OR MORE FmHA LOANS IN THEM

Name	Developer	Address	Number
Beautyline Park	Beautyline Development Corp	Salix, Pa	100
Rivercrest	J. Mark Robinson	R.D. Tunkhannock, Pa	70
Lazy Brook	do	do	65
Weatherly Heights	Gateway Homes, Inc	Hazleton, Pa	55

(*b*). Developers over 100 homes:

Name and address	*County*
Beautyline Developers Corp., Salix, Pa.	Cambria.
J. Mark Robinson, Tunkhannock, Pa.	Wyoming.
Shuler & Alder (Pat-Will), Harrisburg, Pa.	Dauphin, Cumberland, Franklin, Adams, York, Lancaster, Bucks, Lebanon, Perry, Juniata, and Mifflin.
Perry Homes Inc., Zelienople, Pa	Butler, Beaver, Armstrong, and Mercer.
Donco Inc., Dauphin, Pa	Dauphin, Cumberland, Lebanon, York, and Schuylkill.
Milco Inc., Chambersburg, Pa	Franklin, York, Adams, and Cumberland, State of Maryland.

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(c) Rivercrest and Lazy Brook subdivisions have a combined delinquency of 37 loans. The main reason for the delinquency has been caused by raising cost of services with the borrower being on a fixed income. The other contributing factor is the distance to employment from the development; (d) none; (e) none known.

4. See copies of County Office review of delinquency which is conducted annually.

5. None known.

6. None.

7. None other than the ones mentioned in 3(c).

8. (a) None; (b) none; (c) none.

9. (a) None apparent; (b) no experience.

PENROSE HALLOWELL,
State Director.

RHODE ISLAND

Rural housing programs in Rhode Island are administered by the Vermont State office.

SOUTH CAROLINA

1. The following applies to the five counties with the most servicing problems. Delinquent accounts are the most serious problems. Most of the loans were made in 1971, 1972 and 1973 to borrowers with low income. In the last couple of years and especially the last twelve months inflation has soared. Salaries have not increased in proportion to cost of living. As a result borrowers are caught in a squeeze and house payments do not receive priority over food, clothing, etc.

This same situation has resulted in considerable property being acquired by liquidation (voluntary conveyance and foreclosures) and seriously delays sale of this property as a large number of low income people do not have the repayment ability under present high interest rates and high cost of living.

We acknowledge some isolated problems in scattered areas with poor drainage and septic tanks. This is, however, a minor problem considering our entire loan program. We have also had a few problems with contractors in quality construction and prompt follow-up on warranties. Again this is only applicable in a relatively few cases when our total RH program is considered. Also corrective action has been taken to improve subdivisions for satisfactory drainage and future paving. Most of the problems have been satisfactorily resolved.

2.

Total number of loans, South Carolina	28,115
Number estimated delinquent	7,000
Over 3 months estimated delinquent	3,000
Over 6 months estimated delinquent	1,000

Most of the loans in South Carolina six months or more delinquent are in foreclosure pending sale by the U.S. Attorney. Most of those three months or more delinquent (which includes those six months delinquent) are in the initial stage of liquidation and unless a satisfactory agreement is reached to bring the account current, liquidation action will continue.

(a) See attached report. We estimate 95% of all serious delinquent cases (6 months or more delinquent) have had liquidation initiated, the others have reached agreements to get current for the five counties listed on the attached report; (b) South Carolina doesn't keep statistics of defaulted accounts by dates. Finance Office provides information as to number acquired accounts and losses involved on a statewide basis. It is estimated 1,500 have defaulted statewide since 1-1-73 with an expected loss of approximately $500,000. Actual loss has not been determined as many of these have not been resold. We estimate 1,000 more defaults in the near future with losses of an estimated $300,000; (c) estimated vacant houses not yet in inventory and with liquidation in process—200; (d) estimated number of houses in inventory and to be taken in inventory in the near future that may be difficult or impossible to sell at prices reasonably related to FmHA investment is 200 (25% of those acquired).

3. (a, b, c and d.) Please refer to the reports from District Directors for more specific information on this question. District Directors reports are attached; (e) There is presently underway an investigation by the Office of Investigation of Arthur Ravenel, Jr. and Co. for alledged irregularities of one or more of his salesmen. No report has been received as of this date.

4. No written analysis involving delinquent Section 502 loans in South Carolina has been made. Problem cases and problem counties are reviewed and analized on an individual basis. These analyses are not always formalized in a written report.

5. We have no significant problems in Multi-family housing. We have three RRH accounts which have been and still are delinquent which is primarily a management problem. We expect to resolve all but one of these by the end of the year.

6. We are not aware of any instances where commitments were made for new loans at a time when Farmers Home Administration's acquired houses which we do not anticipate could be sold at realistic prices. As soon as it appears acquired houses cannot be sold, we cease making commitments in these areas.

7. We know of no real concentration of borrowers in a single subdivision who have made no payments or almost no payments after loan closing. We have only isolated cases as far as we are aware.

8. We are aware of: (*a*) Several isolated cases where the borrower never moved in: (*b*) Yes, we know of a few cases where the borrower was employed by the builder. When applications are obtained where the applicant is employed by the builder or contractor, a thorough investigation and evaluation of the information submitted is made in order to determine the correctness of the information. When this is done we do not feel that there is any conflict involved. (*c*) We understand builders and developers in some rare instances have paid insurance premiums. We have no details of the actual cases in the State Office. We do not know whether this was an inducement or simply to expedite loan closing when the applicant (borrower) did not have ready cash to pay same.

9. (*a*) It is our opinion there is no significant difference between manufactured or conventionally constructed houses in respect to defaulted loans; (*b*) The gain or loss per houses is not directly related to being manufactured or conventionally constructed. We did have one brand manufactured home which had some features that were undesirable, however Farmers Home Administration financed relatively few of these houses. The major reason for losses on Government acquired property is abuse by borrowers, vandalism and theft.

As additional comment, the State Office does not generally keep detailed records for much of the type information requested concerning individual specific cases. Our county offices maintain case files on each account and details are generally available from these county files.

E. W. BROOKS,
State Director.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING FIVE COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFAULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
Orangeburg	1,171	506	116	5	5	133
Sumter	1,161	308	85	2	9	26
Anderson	959	202	45	0	3	17
Hampton	491	138	25	2	1	24
Aiken	419	122	13	0		29

County	Sold: Number fiscal year 1974	Sold: Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Inventory: Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
Orangeburg	17	Loss	76	Loss	0	0	0	63
Sumter	48	do	57	do	2	0	0	58
Anderson	29	do	39	do	2	0	0	38
Hampton	17	do	42	do	0	0	0	13
Aiken	12	Gain	38	do	1	0	0	33

SOUTH DAKOTA

This is to advise that we have no serious delinquency problems in any of our counties, and have had no serious defaults of mortgages.

We have very few house vacancies, and we feel we have only three or four serious vacancy cases.

At the present time we have four houses on inventory, and feel we will have no serious problem in selling these homes.

We have had no serious problems with developers or subdivisions.

ARCHIE GUBBRUD,
State Director.

TENNESSEE

1. In our July 31, 1974 response to FmHA Bulletin No. 5049(465) we identified the five counties in Tennessee in which we believe we have the most serious problems in Section 502 RH loans. The problem is major in Maury County.

2. In Item 2 of the State Office schedule you asked for, our best estimate as to the total number of Section 502 loans in the State and in the five problem counties which fall into the following categories: (*a*) Seriously delinquent—The Finance Office Form 389–225 showed the accounts over 3 months delinquent as of July 15, 1974, this number was 1,662 we estimate that 75% or 1,200 are more than six months delinquent. The actual number for the five problem counties was indicated on the schedule mailed you on July 31, 1974; (*b*) The number of loans that have defaulted since January 1, 1973 is 253 and the estimated loss from such default is $40–50,000. We estimate that there will be an additional 50 loans defaulted in the near future with little if any additional loss; (*c*) We estimate that there are now approximately 75 FmHA financed vacant houses in the state with approximately 15 of which have not as yet been taken into inventory; (*d*) Of the houses now in inventory approximately 81 we estimate that less than 10 cannot be sold under present conditions at prices reasonably related FmHA investment in them.

3. (*a*) Subdivisions in Tennessee containing 50 or more FmHA financed homes:

Bolivar.—Hardeman County, Tennessee: Beverly Hills Subdivision—Roger Parham, Developer, 800 East Fairground, Bolivar, TN 38008. Slightly over 50 dwellings—No problems in this subdivision.

Brownsville.—Haywood County, Tennessee: Fairgrounds Subdivision—J. Hogt Hayes, Route #6, Brownsville, TN 38012. Slightly over 50 dwellings—No problems in this subdivision.

Columbia.—Maury County, Tennessee: Zion Acres Subdivision—Morgan Construction Company, Columbia, TN. Approximately 125 houses—Major problems (See County Problem Report on FmHA Bulletin 5049 mailed to you on July 31, 1974).

Dickson.—Dickson County, Tennessee: Spanish Oakes—Roger White & Hudson Horgan, Mathis Drive, Dickson, TN 37055. We estimate 80 dwellings—No problems.

Memphis.—Shelby County, Tennessee: Redmont Subdivision—Redmont Construction, 72 Madison Street, Memphis, TN. Approximately 125 FmHA financed houses—No major problems.

Ripley.—Lauderdale County, Tennessee: Parkview Subdivision—L. W. Parton, 136 Highland Street, Ripley, TN. 77 FmHA financed houses—No major problems. Skyline Sublivision—Smith Brothers Construction, 101 Randolph, Ripley, TN. Slightly over 50. Town and Country Subdivision—Jerry Riley, Route #2, Halls, TN and Gates, TN. Slightly over 50. No major problems in any three of these subdivisions.

Somerville.—Fayette County, Tennessee: Neecie C. Taylor Subdivision—Ray Dickie, Germantown, TN. Approximately 65 FmHA financed houses—No major problems.

(*b*) The following builders or developers have built a total of 100 or more FmHA homes in Tennessee: Morgan Construction Company, Columbia, TN (Not now involved in building); Roger White & Hudson Horgan, Mathis Drive, Dickson, TN 37055; Redmont Construction Company, 72 Madison Street, Memphis, TN; Smith Brothers Construction Company, 101 Randolph Street; Ripley, TN; Grady-Morris & Son, Middleton Street, Somerville, TN. None of these builders has specialized in manufactured homes. All have been conventionally constructed homes.

(c) The only subdivision in the state where there has been 10 or more defaulted loans is Zion Acres—Maury County, Tennessee.

(d) The only builder or developer that has been associated with 25 or more defaulted loans is Morgan Construction Company. The total defaulted loans involved would be approximately 100. The prime factor involved in these defaulted loans had to do with Packagers making indiscriminate selection of families with FmHA personnel giving adequate attention to the stability and debt paying ability of the families. Actually few if any families who moved into the subdivision were acquainted with their neighbor in the subdivision. There were no feelings of community pride or of being neighborly.

(e) There has been no special investigation conducted or legal action taken because of alleged irregularities involving operations of large-scale builders or developers of FmHA financed homes.

4. We have no written analysis other than Finance Office print-outs of the overall extent, nature and/or causes of problems involving delinquent and or 502 loans in our state.

5. There have been no significant problems in our state involving multi-family housing financed by FmHA funds.

6. There have been no instances in our state with the past 3 or 4 years in which new loans or commitments were made in a subdivision at which time acquired or appeared likely to acquire title to houses in the same subdivision which it would not be able to resell at realistic prices.

7. There has been no significant difference in Teneseee between manufactured and conventional constructed houses in respect to: (a) Problem involving defaulted loans; (b) The average gain or loss on houses taken into inventory and resold.

PAUL M. KOGER,
State Director.

TEXAS

1. In the State of Texas there are 31,377 active RH loans. There are 178 RH 502 houses on government inventory. Ninety-six of a total of 144 county units have no houses on inventory. Twenty-six units have only one house each on inventory. Thirteen units have more than one, but less than five houses on inventory. Three units have five to ten houses on inventory. Six units have as many as ten but not more than eighteen houses on inventory. These six units are listed below:

Unit:	*Houses in inventory*
Corpus Christi	18
San Benito	17
Gainesville	16
Tulia	15
Linden	16
Weatherford	10

2. (a) In this state there are approximately 31,377 RH 502 loans. Approximately seven percent are delinquent more than six months. Much less than one percent have had liquidation action initiated; (b) About one half of one percent of loans have been liquidated since January 1, 1973. The loss is estimated to be less than $1,000 per house. It is estimated that one fourth of one percent of the loans now active will be liquidated by foreclosure during the next few years. The loss is expected to be negligible due to increase in price of houses; (c) From monthly reports received from county offices there are about 60 houses now vacant. These houses are on inventory. Twenty houses not yet on inventory are vacant; (d) There are ten houses now on inventory which we find very difficult to dispose of due to the specific location. We expect considerable loss on the resale of these houses.

3. (a) We are not aware of any subdivision in the state containing as many as fifty FmHA financed homes. Reports from district directors which we are requesting will show a few established towns with fifty or more houses that were financed by FmHA; (b) We know of no single builder or developer who has built a total of 100 or more FmHA financed homes in Texas during the past three or four years. District directors' reports might show that this is not true; (c) We have no subdivision in the state that has had ten or more defaulted FmHA loans since January 1, 1973. We do know of some established towns that fall in this category: Bowie, Texas; Mineral Wells, Texas; Taft, Texas and Port

Isabel, Texas; (*d*) We know of no builder or developers who have been associated with a total of twenty-five or more defaulted FmHA loans since 1973. The district directors are preparing more detailed reports on this matter that might reflect some different information; (*e*) We have knowledge of any special investigation conducted or any legal action taken because of alleged irregularities involving operations of large-scale builders or developers of FmHA financed homes. The Office of Inspector General made extensive investigation of our RH activities in Port Isabel, Cameron County, Texas. No legal action taken—exceptions have now been cleared.

4. We enclose written reports received from district directors regarding overall extent, nature and/or causes of delinquencies and problems.

5. There have been no significant problems in Texas involving multi-family housing financed by FmHA.

There are two labor housing projects located in Hale County and Dimmit County. These projects have not been successful from a financial standpoint, but did serve the purpose for which they were built. Both are now in process of being transferred to local housing authority. These transfers are being made on the basis of 90 percent grant and 10 percent loan.

6. We have no knowledge where new loans or commitments were made in a subdivision at a time when FmHA had acquired or appeared likely to acquire title to houses in the same subdivision which it would not be able to resell at realistic prices. We do know of a few areas on which a moratorium was placed on building new houses when it appeared the above problem might materialize.

7. We are aware of no instance in which there has been a noticeable concentration of borrowers in a single area who made no payments after loan closing. In the Taft, Texas, area of Corpus Christi unit and Port Isabel area of the San Benito unit, very few payments were made by new borrowers before many abandoned their houses.

8. (*a*) We are not aware of but one case involving defaulted RH 502 loans where the borrower never moved into his new house; (*b*) We know of one case where an employee of the developer received an RH loan; (*c*) We know of no cases of this nature.

9. We do not believe there is a significant difference between manufactured and conventionally constructed houses with respect to: (*a*) problems involving defaulted cases; (*b*) average gain or loss per house after the house taken on inventory.

J. Lynn Futch,
State Director.

UTAH

The following report includes information obtained from the District Directors along with the State Office report.

1. Counties in Utah with the most serious 502 housing problems are as follows:

Grand County.—This is a sparsely populated county located in the Southeast part of the State. The largest community is Moab. This area is the problem area of Grand County. Employment in Moab is unstable causing the homes to change hands and helping to cause an increased delinquency. The delinquency in Moab is the highest of any community in the State.

San Juan County.—This county is similar to Grand County, having homes change hands fairly rapidly. Loans have been made to several Navajo Indian families for homes not located on the reservation. Collection of these accounts is difficult and we definitely have a language barrier. We have difficulty in getting families in this area to properly maintain the appearance of the homes, to pay real estate taxes and keep adequate fire insurance coverage on the dwellings. The above two counties are served from our Monticello County Office.

Duchesne County.— This county is located in the Northeast part of the State and until recently was a sparsely populated area relying mainly on agriculture as the source of income. The 502 loan program was small at that time. There has been renewed activity in the oil industry and this has brought about an increase in the population and a big demand for housing. As a result, land and building costs have risen very rapidly. This county is the highest cost area in the State for home construction. The majority of our borrowers whose loans were made before the influx of people relied mainly on agricultural income. Due to the low livestock prices and high costs of farming operations, the delinquency in the area is on the increase.

2. Estimate of 502 loans six months or more behind schedule: (*a*) State of Utah—250: (1) Grand and San Juan Counties: 17–9%; (2) Duchesne County: 13–10%. In Grand and San Juan Counties, handled out of the Monticello County Office, there are three accounts that have been submitted to the OGC for foreclosure. In Duchesne County, there is one account that has been submitted for foreclosure.

(*b*) Do not anticipate any losses.

(*c*) One home is vacant in the State. This case is in the hands of the OGC for foreclosure to obtain title to the property. As soon as this action is completed, this home will be sold. There is a buyer available.

(*d*) In the State of Utah we have one home on inventory. This was obtained through foreclosure action. It is being rented at the present time and at the end of the redemption period, this home will be sold. There is a buyer available. We do not expect any loss.

3. (*a*) Subdivisions—50 homes or more: (1) Oquirrh Lane Subdivision—located in Magna, Utah. 57 homes being built by United Homes; (2) Dixie Valley Nos. 1–6—located in West Jordan, Utah. There are a total of 300 lots in the subdivision. FmHA has financed approximately 240 of these homes. Contractors working with FmHA on them are Yergenson Construction Co., Bowles Construction Co., Larsen Construction Co., and Breeze Construction Co. We also have some self-help borrowers in this subdivision; (3) Cyprus Heights Subdivision—located in Cyprus, Utah. There are a total of 200 lots in the subdivision. FmHA has financed approximately 70 homes here. Construction contractors working with FmHA are Western Realty, Larsen Construction Co., plus we also have some self-help homes in this subdivision; (4) Copper Hills Subdivision Nos. 9 and 10—located in Hunter, Utah. There are about 100 lots in this subdivision. FmHA has financed approximately 50 homes here. The contractors working with FmHA are Mulford Construction Co., Breeze Construction Co., Lords Construction Co., and Killpack Construction Co.; (5) High Gate Hamlet Subdivision—located in Hunter, Utah. There are approximately 100 building sites in this subdivision. FmHA has made loans for about 50 homes here. Contractors working with FmHA in this subdivision are Smith Construction Co., Cinnamon Ridge Construction Co., Hosler Construction Co., Keel Construction Co., Mulford Construction Co., and Midwest Realty; (6) Bluegrass Park Subdivision—located in West Jordan, Utah. There are about 62 building sites in this subdivision. FmHA has financed approximately 50 homes here. Contractors working with FmHA are Rolf Aase Construction Co., C & W Construction Co., and Hosler Construction Co.; (7) Glen Heather Subdivision—located in Hunter, Utah. There are approximately 200 building sites in this subdivision. FmHA has financed about 60 homes in this development. Contractors working with FmHA are Don Black Construction Co., Rolf Aase Construction Co., and United Homes; (8) Pioneer Village Subdivision—located in Plain City, Utah. There are about 75 building sites in this subdivision and FmHA will loan on approximately 70. The contractor is Wades, Inc.

(*b*) Yes. (1) Rolf Aase Construction Company, Salt Lake and Tooele Counties. Approximately 120 homes; (2) Wades, Inc., Weber County. Approximately 100 homes; (3) Western Realty, Salt Lake County. Approximately 300 homes. There are three builders working with Western Realty. Rolf Aase Construction Company and Wades, Inc., mainly specialize in conventional type construction. The builders working with Western Realty use the conventional method of construction and also purchase manufactured homes; (*c*) No; (*d*) No; (*e*) No.

4. A review was made of Forms FmHA–UT 460–1, "Annual Review of Delinquent and other problem cases." We reviewed 73 cases and found that the average dollar delinquency was $238.52. We found the major causes of delinquency as stated by District Director and County Supervisor to be as follows: (*a*) Unnecessary capital expenditures; (*b*) Poor debt-repayment attitude; (*c*) Poor management; (*d*) Business failure; (*e*) Low farm income plus high farm operating expense; (*f*) Illness; (*g*) Divorce.

This information was obtained for analysis reasons for the State Office and no formal report was made.

5. None.

6. No.

7. No.

8. (*a*) Yes—one. Borrower refinanced FmHA; (*b*) No; (*c*) No.

9. (*a*) No differences noted; (*b*) No.

CLARENCE A. ANDERSON,
State Director.

VERMONT

[Please note only three County Offices are listed, as "significant" problems do not exist in the remaining offices.]

Nature and extent of problem

Concord, New Hampshire.—With limited personnel this County Office has advanced $10,256,000 in 502 loans in the last 4 years. Servicing was strictly secondary thus a present 29% delinquency exists. Aggressive account servicing is necessary to curtail the increased delinquency and add consistency to a balanced program.

Holden, Massachusetts.—With limited personnel this County Office has advanced $10,460,000 in 502 loans in the last 4 years. Servicing was strictly secondary thus a present 28% delinquency exists. Aggressive account servicing is necessary to curtail the increased delinquency and add consistency to a balanced program.

Springfield, Vermont.—Accelerated loan making with inadequate servicing plus the exchange of personnel are the cause of our major problems in this office. Delinquency is at 21%. RH 502 loaning last 4 years totals $6,606,000.

2.	Concord, N.H.	Holden, Mass.	Springfield, Vt.	Vermont State jurisdiction
Seriously delinquent	37	29	12	432
Liquidation action started	5	12	8	52
Defaulted since Jan. 1, 1973	8	7	2	45
Loss from all defaults	$25,000	$22,000	$15,000	$140,000
Additional loss anticipated	$15,000	$10,000	$5,000	$45,000
Houses vacant	3	4	8	22
Vacant houses not yet in inventory	1	0	4	8
Houses in inventory	1	4	0	26

3. (*a*) We have one subdivision containing over 50 FmHA financed homes: Name: Cranberry Estates. Location: Carver, Massachusetts. Name of builder: Village Homes, Inc. William Brothers—Contractor. Number of houses: 57; (*b*) There is no builder or developer who has built 100 or more FmHA houses; (*c*) There is no subdivision in which we have 10 or more defaulted FmHA loans since January 1, 1973; (*d*) There is no builder or developer who has been associated with a total of 25 or more defaulted FmHA loans since January 1, 1973; (*e*) We have had no investigations or legal action taken against any large scale builder or developer.

4. This office has not prepared a written detailed analysis of the overall problems involving delinquent borrowers.

5. No major problems exist with RRH servicing.

6. To date this office has not encountered difficulties in selling properties in subdivisions (neither from the standpoint of the market or price).

7. Nonpayment borrowers in the Vermont jurisdiction are on a scattered basis and we have not encountered a concentration of default payments in a single subdivision.

8. (*a, b, c*) Our records do not show any overall difficulties with borrowers not occupying the house after closing, borrower-builder association causing defaults, or insurance-loan payments involving borrower-builder collusion.

9. (*a* and *b*) To date we have not witnessed a distinction between manufactured and conventionally constructed homes from standpoint of default payments. Our foreclosure cases show a large variation of losses between all types of houses. But no line distinction exists between manufactured and conventional construction.

SHERMAN K. SPRAGUE,
State Director.

VIRGINIA

1. The five counties considered to have the most serious problems with the 502 rural housing program operations are:

Suffolk.—Has a high delinquency (24% over three months delinquent) and high number of vacant houses (14). This condition has been caused by the low income borrowers that were attracted to the program by the packaging contractors. The borrowers that have been living in sub-standard rental units in the urban community frequently do not accept the responsibilities of home ownership.

Isle of Wight.—This office serving Isle of Wight and Surrey Counties has a high delinquency rate of 31.6% over three months delinquent. Part of the problem is the same as Suffolk, above, and also insufficient effort has been devoted to collections.

Appomattox.—The delinquency rate here is high (35%), however, the long term (over three months) is 13.9%. The lack of personnel in this office and volume of applications has also been a problem. An additional Assistant County Supervisor was recently employed for this office and when he is trained, the situation will improve.

Dinwiddie.—This county has a high demand for housing which is caused by the location joining Petersburg. This attracts the FmHA eligible applicants from the City of Petersburg. The delinquency rate of the Petersburg office is 32.9%, with 14.7% long-term delinquency. A concerted effort by a Summer employee has reduced the delinquency approximately 3½% since June 30, 1974. This reduction was in both the total delinquency rate and the long-term delinquencies.

Accomack.—This area of low income and seasonal income from agricultural employment has a high delinquency rate (total 39.9%, and long term 21.5%). The existing housing conditions among the low income are extremely bad and a high delinquency can be expected for some time. There have been some recent increases in industry in this area, which will improve the full-time employment situation, and should improve the FmHA situation. This is an area where FmHA must take the risks to improve the housing conditions.

In summarizing the five above named areas, it is evident that the major causes of the high delinquencies are (1) high black population, (2) extremely low income, and (3) deplorable housing conditions we are trying to improve.

2. (*a*) *Seriously delinquent loans.*—The number and percentage of seriously delinquent loans is reflected in the attached Exhibit A. The number of loans which are in the process of liquidation is also recorded in Exhibit A: (*b*) The number of loans that have defaulted and on which foreclosure sales have been held since January 1, 1973 is 25. The estimated loss from such defaults is less than $500. It is estimated that 150 additional foreclosure sales will be held in the near future (next 18 months) and the estimated loss will be less than $5,000 provided the economy remains as at present: (*c*) A survey conducted in early August 1974 showed 136 vacant FmHA financed houses of which 133 were not in inventory. This number should be less at this time as several have been transferred and occupied, and some occupied under a Caretakers Agreement: (*d*) All houses in inventory or expected to be taken into inventory and should be sold at prices reasonably related to the FmHA investment.

3. (*a*) *Subdivisions containing 50 or more FmHA financed homes.*—(1) Kennedy Estates, Suffolk, Virginia. Diversified Developers—350 homes; (2) Crawford Manor—Churchville, Virginia. Knopp Brothers—125 homes; (3) Forest Glenn—Williamsburg, Virginia. Colonial Contractors (primarily)—165 homes; (4) Highland Park—Dublin, Virginia. Jones Brothers—200 homes; (5) Orchard Hills—Dublin, Virginia. Vest and Wright—126 homes; (6) Rolling Hills—Dublin, Virginia. Vest and Wright—78 homes; (7) Dutch Lane—Mt. Jackson, Virginia. W. L. Meyers—55 homes; (8) Bel Air—Verona, Virginia. B. C. Clemmer & C. P. Rease—75 homes.

(*b*) Builders and Developers that have built 100 or more FmHA financed homes in the past three or fours years: (1) M. D. Booker—110 homes in Appomattox and Bedford office areas—primarily manufactured homes; (2) Bennett T. Mathews (Heritage Homes) 175 homes in Appomattox and Culpeper office areas; both manufactured and conventionally constructed; (3) R. M. Anthony Construction Company, Henry County. 100 homes; conventionally constructed: (4) Planned Neighborood, Inc. Operated in South and Eastern part of Virginia. 200 homes; manufactured construction; (5) Knopp Brothers, Augusta County. 200 homes; conventional construction; (6) Windsor Custom Homes, Windsor Builders, Inc. Suffolk and Providence Forge office areas. 175 homes; manufactured; (7) Jones Brothers—Dublin, Virginia. 255 homes, conventional construction; (8) Fred Jones, Southside, Virginia. 125 homes; manufactured; (9) Colonial Contractors, Williamsburg, Virginia. 160 panelized manufactured homes; (10) Vest and Wright, Dublin, Virginia. 254 homes. Conventional construction; (11) Poff Construction, Christiansburg and Pulaski office areas. 300 homes, primarily conventional construction, and some manufactured; (12) Joseph R. Daniels, Culpeper, Virginia. 110 homes; conventional construction and manufactured; (13) Monticello Homes, Charlottesville, Virginia. 125 homes; manufactured.

(c) It is believed no subdivision has had as many as 10 defaulted FmHA loans since January 1, 1973.

(d) Windsor Builders, Inc. (Windsor Custom Builders, Windsor Custom Homes, Inc.) constructed homes of which at least 26 borrowers have defaulted and it is expected a possible 25 additional borrowers may default. This company advertised to reach the very low income urban resident and induced them to move to rural areas where many soon became dissatisfied (because of lower welfare payments and food stamp availability) and moved back to the city. Also, they do not accept the responsibilities of home ownership.

(e) Special investigations are being conducted on Windsor Builders, Inc., however, no results of the investigations have been released to this office. Also, Joseph R. Daniels, Inc. and Heritage Homes (Bennett T. Mathews) both of Culpeper, Virginia are under investigation; however, no investigative results have reached this office.

4. Exhibit A is the most recent overall written analysis of the delinquent and defaulted section 502 loans.

5. There is one multi-family RRH project that is being processed for foreclosure. This involves two apartment projects, a total of 10 units, to the same borrower which has been mismanaged. FmHA could possibly lose $10,000 to $15,000 on this project. The total debt now is approximately $118,000. Inasmuch as other liens and judgments have been filed against the property, a transfer cannot be made. Also, there is a possibility other lien holders may decide to settle the FmHA debt to protect their lien, thereby resulting in no loss to the Government.

6. There has been no incident of new loans or commitments being made in a subdivision at the same time FmHA inventory houses could not be sold at realistic prices.

7. In one instance in a subdivision of approximately 25 houses, approximately 12 have been a delinquency problem. The parties concerned are all related in some way and all moved from Richmond to the rural area. Foreclosure action has been started against some of the borrowers, and others will follow if the first foreclosures do not reverse the delinquency trend.

8. (*a*) Several houses financed in the Suffolk office for Windsor Builders were never occupied by the original borrower. Most of these have been transferred to other eligible borrowers and the remaining will require foreclosure as the original borrower either has judgments or cannot be located to sign transfer papers; (*b*) No known problem case or defaulted loan exists where the contractor or developer was the employer or primary credit reference; (*c*) Windsor Builders offered undisclosed inducements to the borrower. In a few cases, an automobile to provide transportation to work was promised, and in many cases a promise to make FmHA payments until the house was ready for occupancy was promised. Most promises to make the payments were honored, however, no known cases of delivery of a functioning automobile is known.

9. In my opinion there is no significant difference between the manufactured (modular) and conventionally constructed houses as to: (*a*) Problems involving defaulted houses; and (*b*) the average gain or loss per house or houses taken into inventory and resold, based on the original amount loaned and unpaid, repair costs, etc.

Under the laws of Virginia and the requirements of Virginia FmHA, the construction of the manufactured and conventional houses must meet the same code and Minimum Property Standards. In fact, it is the opinion the modular home must be more strongly constructed than the conventional house in order for it to withstand the stress of being moved to the site. Also, quality control is more easily maintained in a plant than on-site construction. Virginia law requires all modular homes to be inspected by a third party such as U.L. and most manufacturers do use the U.L. inspection.

R. A. GOODLING,
State Director.

EXHIBIT A

502 RURAL HOUSING LOAN STATISTICS—TO DATE VIRGINIA—FmHA

[Exhibit A contains delinquency and liquidation statistics for all Virginia counties. Figures for the 5 counties identified as having the worst problems and total figures for the State as of July 26, 1974, follow]

County/city	Number active 502 loans	Number loans delinquent over 30 days	Percent delinquent	Number loans delinquent over 6 months	Percent delinquent	Number loans in process liquidation: Transfer	Voluntary conveyance	Foreclosure sale	Number houses in inventory (now sub-division)	Number vacant houses in inventory	Sold from inventory 1974
Accomack	602	223	37.0	75	12.0	39	0	1	0	0	
Appomattox	319	129	40.0	35	11.0	1	0	0	0	0	
Dinwiddie	371	125	34.0	47	13.0	1	1	2	0	0	
Isle of Wight	478	230	48.0	80	17.0	1	1	0	0	0	
Suffolk City	1,032	341	33.0	112	11.0	19	0	0	0	0	
State total	24,372	6,050	24.8	1,788	7.3	165	23	171	12	3	5 (G)

WASHINGTON

1. The six counties (county office areas) in the State of Washington which have the most serious problems in their Section 502 rural housing program operations.

King County—Nature and extent of problems: 1. Servicing of the loans has been weak; 2. Heavy demand for loans took precedence over loan servicing. This problem has been alleviated by opening an office to split off the heaviest demand area; 3. High unemployment rate due to Boeing reduction.

Grays Harbor-Mason-Pacific Counties—Nature and extent of problems: 1. Loans were made without too much regard for repayment ability; 2. Loan servicing has not been given proper emphasis; 3. Fairly large volume of acquired properties.

Snohomish County—Nature and extent of problems: 1. Loans were made without very much concern about repayment ability; 2. Fairly large inventory of acquired properties. Former supervisor tried to sell them himself. Present supervisor is using advertising and real estate agents and reducing the inventory; 3. Loan servicing was weak.

Whatcom County—Nature and extent of problems: 1. Loan servicing has been weak; 2. Large volume of loans in addition to housing.

Clark-Wahkiakum-S. Cowlitz Counties—Nature and extent of problems: 1. Loans were made at the expense of loan servicing; 2. Collection efforts are not firm enough and not started soon enough; 3. Large service area; 4. One large developer had problems completing development in a subdivision of over 50 houses.

Pierce County—Nature and extent of problems: 1. A self-help project group has been giving improper advice and instruction to participants regarding payments; 2. Construction has been slow with families unable to occupy their homes within the planned time frame.

2. The best estimate as to the total number of Section 502 houses or loans in Washington State and the counties listed in question one in each of the following categories:

(*a*) Number seriously delinquent:

1. State—475. Percent on which liquidation has been initiated—12%.
2. King—63. Percent on which liquidation has been initiated—20%.
3. Grays Harbor—45. Percent on which liquidation has been initiated—2%.
4. Snohomish—85. Percent on which liquidation has been initiated—6%.
5. Whatcom—70. Percent on which liquidation has been initiated—1%.
6. Pierce—30. Percent on which liquidation has been initiated—20%.

(*b*) The number of loans defaulted (where liquidation has been initiated) since January 1, 1973, and estimated loss.

1. Defaults:	
(*a*) Defaulted (estimate)	335
(*b*) Estimated additional	60
2. Estimated loss:	
(*a*) 1973 to present	$370,000
(*b*) in the near future	66,000

(*c*) The number of FmHA financed houses which are vacant, together with an estimate of such vacant houses which have not yet been taken into inventory.

(1) Number of vacant houses	147
(2) Estimated number not yet in inventory	82

(*d*) The number of houses which are now in inventory which we believe will be difficult or impossible to sell under present conditions at prices reasonably related to the FmHA investment in them is 5 or 6.

3. (*a*) We are aware of only two subdivisions in the state containing 50 or more FmHA financed homes: (1) the name: Battle Ground West. Location: Battle Ground, Washington (Clark Co.). Name of builder: Farrell Homes started and completed by Everett Trust after Farrell Homes went bankrupt. Number of homes in the subdivision—64; (2) The name: View Meadows. Location: Battle Ground, Washington. Name of builder: American Pacific Corporation. Number of homes in the subdivision: 54.

(*b*) Builders and/or developers who have built a total of 10 or more FmHA financed homes in the State of Washington.

Name(s)	Estimated number	Location of construction
1. Dujardin Construction Co.	200	Skagit, Whatcom, Snohomish, and King, Counties.
2. United Builders	200	Yakima, Kittitas, Douglas, Okanogan, Adams, Benton, Spokane, and Ferry Counties.
3. Kappen Homes	150	Spokane County.
4. Benroy Homes	200	Snohomish, Skagit, King, Clark, Yakima, and Benton Counties.
5. Gold Key, Golden Homes, Rich-Lon Builders, Rich-Lon Investment Co., Gold Crest, Majestic Homes, Drake Construction Co.	250	Chelan, Douglas, Okanogan, Grant, Klickitat, Clark, and Benton Counties.
6. Firstmark Corporation	100	King, Thurston, Mason, and Clark Counties.
7. Hovde Construction Co.	125	King, Snohomish, Yakima, and Clark Counties.
8. Ray Moore Construction Co.	120	Snohomish, Yakima, and Klickitat Counties.
9. American Pacific Corp.	100	King, Pierce, and Clark Counties.

All builders used conventional construction and only builders (4) and (5) are no longer in business to our knowledge.

(c) Washington State has only one subdivision in which 10 or more loans have defaulted since January 1, 1973: (1) Name: Wilderness Rim, North Bend, Washington, King County; (2) Estimated Number of Defaults: 12; (3) Factors Contributing to the Problem: (*a*) Poor screening of applicants; (*b*) Lack of year around employment.

(*d*) We are not aware of any builder or developer which has been associated with a total of 25 or more defaults since January 1, 1973.

(*e*) We had one builder who would not take corrective action within the year of warranty in which a class action was taken by the State of Washington to force him to take care of the warrantys. The action did result in his fulfilling his obligations. He was not particularly a large scale operator under our program. His name is Charles Schaafsma.

4. We have not made or been provided a written analysis of the overall extent, nature and/or causes of problems involving delinquent and/or defaulted Section 502 loans in Washington State or areas thereof.

5. We have two labor housing loans in the State which have had significant problems. Both the Othello Labor Housing and Royal City Labor Housing borrowers have been delinquent due to a lack of good management and the Royal City loan lacked occupancy to generate adequate income. The Royal City area does not provide a unified support and collections from renters have been a problem.

6. We are not aware of any instances in Washington State in which new loans or conditional commitments were made in a subdivision at a time when FmHA had acquired or appeared likely to acquire title to houses in the same subdivision which it would not be able to resell at realistic prices.

7. There have been a few instances but we are not aware of any noticeable concentration of borrowers in a single subdivision or area who made no payments, or almost no payments, after loan closing.

8. We are not aware of any instances involving problems or defaulted Section 502 loans in Washington in any of the categories listed.

9. Our experience in manufactured homes is very limited but if the manufactured homes are set on proper foundations there have been no significant differences. We are not aware of any differences insofar as default of loans or the resale or repair costs. The major differential is more in cost where a manufactured house is usually more costly.

MICHAEL C. HORAN,
State Director.

PROPERTY MANAGEMENT STAFF QUESTIONNAIRE IDENTIFYING FIVE COUNTIES IN YOUR STATE HAVING THE MOST SERIOUS DEFEULTED LOANS, INVENTORY AND SALE PROBLEMS REGARDING THE 502 RH PROGRAM ONLY (NOTE: GIVE BEST ESTIMATES AVAILABLE INDICATING TOTALS AS OF CURRENT TIME UNLESS OTHERWISE NOTED)

County	Number active RH loans	Number delinquent RH loans	Number delinquent more than 6 months	Number in liquidation by— Transfer	Voluntary conveyance	Foreclosure
King-Pierce	925	304	83	24	8	20
Mason-Pacific-Grays Harbor	542	202	45	5	19	3
Thurston	390	74	25	2	1	2
Snohomish	590	189	86	4	7	5
Whatcom	867	230	91	0	3	4

County	Sold: Number, fiscal year 1974	Sold: Estimated net gain or loss (fiscal year 1974)	Inventory: Number (current)	Inventory: Do you anticipate Government gain or loss	How many subdivisions have more FmHA housing loans in inventory than— 10	25	50	Total number vacant houses in inventory
King-Pierce	6	[1] 1,500.00	10	(1)	0	0	0	2
Mason-Pacific		72,003.36		24,396.31				
Grays Harbor	34	[1] 2,181.92	8	[1] 2,049.54	0	0	0	3
Snohomish	26	[1] 585.00	26	(1)	0	0	0	17
Thurston	7	[1] 2,800.00	6	(2)	0	0	0	6
Whatcom	14	[1] 12,355.00	12	[1] 8,000.00	0	0	0	6

[1] Loss.
[2] Gain.

WEST VIRGINIA

In reply to FmHA Bulletin No. 5074(444) dated August 14, 1974, it is our opinion that we do not at this time have any counties in the State with significant problems.

The following additional comments are made regarding the questionnaire for the State Office:

1. As reported in reply to FmHA Bulletin #5049(465), the following five counties have more problems than others in our state at this time: Fayette County, Greenbrier County, Harrison County, Hardy County and Nicholas County.

The greatest problem is, families are having more difficulty meeting regular payments than anticipated. We have, in some cases, possibly been trying to assist families with inadequate repayment ability, even with interest credit assistance. The rise in living costs for these families without a corresponding increase in income has also contributed to this situation.

2. Estimate as to total number of Section 502 loans in the following categories: (*a*) *Seriously Delinquent—*

Fayette County	27
Greenbrier County	30
Harrison County	20
Hardy County	9
Nicholas County	13
State	240

Liquidation action has been initiated on approximately 75 in the state.

(*b*) *Loans Defaulted Since January 1, 1973—*

Fayette County	15
Greenbrier County	18
Harrison County	13
Hardy County	5
Nicholas County	10
State	190

In almost all cases defaults resulted in loans being liquidated by transfer or foreclosure with little or no loss to Government.

(*c*) *Number of FmHA Financed Houses Which are Vacant—*

Fayette County	2
Greenbrier County	1
Harrison County	0
Hardy County	0
Nicholas County	1
State	10

Only one of these has been taken into inventory to date.

(*d*) None of the houses in inventory or expected to be taken into inventory will be difficult or impossible to sell.

3. (*a*) *Subdivisions containing 50 or more FmHA financed homes:* 1. Brierwood, Wood County, West Virginia. Wilson Brothers Development and Construction Company. Approximately 80 homes financed in this subdivision; 2. Collinwood Acres, Oak Hill, Fayette County, West Virginia. Sewell Development Company, Oak Hill Homes, Inc. Mr. R. E. Kelly is President. Approximately 60

homes financed in this subdivision; 3. Laurel Valley, Harrison County, West Virginia. Huffman and Moore Construction Company. Approximately 65 homes financed.

(*b*) Builders or developers that have built a total of 100 or more FmHA financed homes during the past three or four years:

1. Pownall Builders, Inc., Rt 2, Box 320, Ridgeley, West Virginia. has constructed approximately 180 homes. All the houses have been custom built and most are located in Mineral County, West Virginia. Working relationship has been good and we have had a relative few borrower complaints on the work performed.

(*c*) None known.

(*d*) None known.

(*e*) None known.

4. None.

5. None.

6. None.

7. None.

8. None.

9. No significant difference between manufactured and conventionally constructed houses in our state in regard to items a or b.

J. KENTON LAMBERT,
State Director.

WISCONSIN

State office response

1. *Waterford.*—High delinquency which has somewhat of an urban influence. Numerous strikes have affected borrowers, housing costs are higher, family problems such as divorces occur more frequent.

Whitehall.—Delinquency too high. This office has an extremely high volume of loan making. Employment opportunities are somewhat limited.

Hayward.—High delinquency with much seasonal employment.

Shawano.—(Menominee County). This county has a minority problem. Low wages along with high unemployment. Generally families are large. Liquidation of houses has been a problem. The county is returning to reservation status.

Black River Falls.—High delinquency. Low wages and rather high unemployment.

2. (*a*) We estimate about 250 loans delinquent over 6 months of which 95% of the seriously delinquent ones voluntary liquidation or foreclosure is taking place.

Delinquencies by above counties:

Waterford	20
Whitehall	25
Hayward	10
Shawano	30
Black River Falls	20

This information was obtained from computer printouts from Finance Office.

(*b*) The loans defaulted about 50, which all are in some form of liquidation. Losses were from only a few hundred dollars to several thousand in a few cases; (*c*) There are about 10 (ten) vacant houses in the state of which all are being liquidated. None are in inventory; (*d*) None anticipated.

3. (*a*) None in the state; (*b*) One builder built approximately 100 houses in about a 4 county area. He is Blahleys Inc., Eau Claire, WI; (*c*) None in the state; (*d*) None in the state; (*e*) None in the state.

4. Each district director conducts a delinquent and problem case review in each of his offices. These are then summarized for each office.

5. None in the state.

6. None in the state.

7. None in the state.

8. (*a*) None; (*b*) None; (*c*) There are 3 cases of which are under OIG Investigation.

9. (*a*) No significant difference; (*b*) No significant difference.

WILLIS CAPPS,
State Director.

WYOMING

We do not feel there are significant rural housing problems in any of our county offices. Borrowers often get behind schedule two or three months but catch up before the end of the year. Some confusion still exists as to accurate Finance Office reporting on a monthly basis so follow up as to collections generally begins when the borrower is reported as two months behind schedule.

Due to the "energy crisis" and Wyoming's wealth of undeveloped resources, Wyoming is experiencing or reaching a boom stage. This is creating a housing shortage in many areas in Wyoming with an influx of transient workers. The transients for the most part either want to rent or buy trailer houses. Of course, to a lesser degree there is and will be a steady growth of permanent residents. Houses do not remain vacant and are in demand for purchase.

At the present time we are aware of two houses in the state where there is a potential loss—one is in inventory and one in the process of being conveyed. They are: Powell—1 in inventory and maybe a small loss. Sundance—1 in process of being conveyed—District Director believes a possible $5,000 loss.

At present time we are aware of isolated cases of one or two houses in each district that have or are becoming vacant. Supervisors have assured no losses will be taken and houses are in process of transfers or private sales.

The office considered to have the most serious RH problems at this time is Afton. However, a more aggressive and firm collection policy by the County Supervisor would eliminate this problem. Even so the Supervisor reports no losses are expected. They report currently that "9" RH loans are more than six months delinquent—"3" of these are in process of sale, "2" will pay current, and "1" is an FO borrower who will be delinquent for sometime.

The District Supervisors agree with this information and have nothing to add other than they are striving for a more firm collection policy in some of the offices.

BILL CLARK,
State Director.

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